

**DETERMINANTS OF TAX EVASION AMONG SMALL AND MEDIUM  
ENTERPRISES IN WINDHOEK**

**A THESIS SUBMITTED IN PARTIAL FULFILMENT**

**OF**

**THE REQUIREMENTS**

**FOR**

**THE DEGREE OF**

**MASTER OF BUSINESS ADMINISTRATION FINANCE**

**OF**

**THE UNIVERSITY OF NAMIBIA**

**BY**

**LANDULENI SHIHWANDU**

**201512653**

**APRIL 2021**

**SUPERVISOR: DR. MCCPOWELL FOMBANG (UNIVERSITY OF  
STELLENBOSCH)**

## ABSTRACT

Today it is widely accepted that Small and Medium Enterprises (SMEs) are the essential catalysts for the economic development of any country; however, researchers have a growing concern on the determinants of tax evasion among SMEs. Using a mixed method design, the study aimed to assess the determinants of tax evasion among SMEs in Windhoek. A questionnaire was used to interview the respondents who own SMEs in Windhoek. Data was entered and analysed in SPSS. Descriptive statistics and regression were used to analyse the data. The study revealed that the economic determinants that influence the tax evasion by SMEs in Windhoek are: penalties, perception on government spending and financial constraints. Tax mentality and tax morale, perception on equity and fairness of the tax system and attitudes of the taxpayer are the non-economic determinants that influence tax evasion. The study found that age, marital status and education has effects on tax evasion. In the study, the researcher also discovered that taxpayers have a negative attitude towards taxation. The study recommends that government must give the consumer a proper subsidy under a competitive firm's market, the consumer will voluntarily and fully declare unit tax so that the firm cannot cheat, and that the cheating and auditing costs can be saved, thus Pareto improving and efficient taxation without evasion becomes practicable. Government should understand the nation's behaviour towards taxes and through the Ministry of Inland Revenue set up strategies that would encourage and enable start up SMEs to pay tax.

**Keywords:** *Taxation, Tax evasion, SME*

## TABLE OF CONTENTS

ABSTRACT .....	i
List of Figures .....	vi
List of Tables.....	vi
ACKNOWLEDGEMENTS .....	vii
DEDICATION .....	viii
DECLARATIONS .....	ix
CHAPTER ONE: INTRODUCTION .....	1
1.1 Introduction .....	1
1.2 Background of the study.....	1
1.3 Statement of the problem .....	7
1.4 Objectives of the study .....	9
1.5 Significance of the study .....	9
1.6 Limitations of the study.....	10
1.7 Delimitation of the study.....	10
1.8 Terms.....	10
1.9 Summary .....	11
CHAPTER TWO: LITERATURE REVIEW .....	12
2.1 Introduction .....	12
2.2 Concept of Tax Evasion .....	12

2.3	Theoretical literature review .....	13
2.3.1	Neo-classical Taxation Theory .....	13
2.3.2	Ability-to-Pay Principle .....	14
2.3.3	The Principle of Equal Distribution .....	15
2.4	Empirical evidence of tax evasions on SMEs .....	15
2.5	Empirical evidence on the Determinants of Tax Evasion .....	16
2.5.1	Economic Factors.....	18
2.5.2	Non-economic factors .....	24
2.6	Conceptual framework .....	30
2.7	Summary .....	31
CHAPTER THREE: METHODOLOGY .....		33
3.1	Introduction .....	33
3.2	Study area .....	33
3.3	Research design .....	33
3.3.1	Research philosophy .....	34
3.4	Data source .....	35
3.5	Data collection procedure.....	36
3.6	Data Collection Instrument .....	36
3.7	Population.....	37
3.8	Sample and sampling method.....	37

3.9	Data Analysis .....	38
3.10	Ethical considerations.....	39
3.10.1	Protecting confidentiality and anonymity .....	39
3.10.2	Obtain informed consent.....	39
3.10.3	Voluntary participation .....	40
3.10.4	Minimising the risk of harm.....	40
3.11	Summary .....	41
CHAPTER FOUR: RESULTS AND DISCUSSIONS .....		42
4.1	Introduction .....	42
4.2	Demographic Information .....	43
	Age group .....	43
	Gender.....	44
	Marital status.....	44
	Level of education .....	45
4.3	Objective 1: To identify economic determinants of tax evasion by SMEs in Windhoek. ....	48
4.4	Objective 2: To identify non-economic determinants tax evasion by SMEs in Windhoek. ....	49
4.5	Objective 3: To identify the effects of socio-demographic factors on tax evasion.	

4.6	Objective 4: To examine the attitudes of taxpayers towards taxation.....	52
4.7	Discussions of results .....	53
4.8	Chapter summary .....	55
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS .....		56
5.1	Introduction .....	56
5.2	Summary of the study.....	56
5.3	Conclusions .....	58
5.4	Recommendations .....	59
5.5	Areas for further studies .....	61
REFERENCES.....		62
ANNEXURE A: QUESTIONNAIRE.....		70
ANNEXURE B: LANGUAGE EDITING CERTIFICATE.....		76

**List of Figures**

Figure 4.1: Distribution of respondents by Age.....	43
Figure 4.2: Distribution of respondents by gender.....	44
Figure 4.3: Distribution of respondents by marital status.....	45
Figure 4.4: Distribution of respondents by level of education.....	46
Figure 4.5: Year of company establishment.....	47
Figure 4.6: Attitudes of taxpayers.....	52

in achieving all tasks that were my way, including this work.

I dedicate this work to my research supervisor, Dr. Masopoll Fongang for his

valuable and professional encouragement throughout my study. Special thanks to the staff of the university for giving me interesting support, guidance and academic

**List of Tables**

Table 4.1: Economic factors of Tax evasion.....	48
Table 4.2: Non-economic factors of Tax evasion.....	49
Table 4.3: Model Summary.....	50
Table 4.4: ANOVA table.....	51
Table 4.5: Results of the parameter estimate on Tax Evasion.....	51

## **ACKNOWLEDGEMENTS**

Many people have provided a valuable contribution towards the successful completion of this work, and I am grateful to all of them. It is not possible to mention all of them individually. However, the following, deserve special appreciation, and are worth mentioning.

First, of all, I thank the almighty God, for the many blessings he has gradually bestowed upon me in my life, which have been the foundation of strength and happiness in achieving all tasks that come my way, including this work.

I am particularly grateful to my research supervisor, Dr Mccpowell Fombang for his professional guidance, encouragement and understanding throughout my study. Special thanks to Dr Elombo Andreas for giving me unwavering support, guidance and academic support throughout this journey. My heartfelt gratitude also goes to my lovely mother, Anna H Ipinge for always being there for me. I would like to extend my sincere gratitude to Dr. Greenfield Mwakipesile and the entire staff of the Namibia Business School of the University of Namibia and my employer, the Office of the Auditor General for having faith in me and permitting me to further my studies.

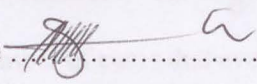


## DECLARATIONS

I, Landuleni Shihwandu, hereby declare that this study is my own work and is a true reflection of my research, and that this work, or any part thereof has not been submitted for a degree at any other institution.

No part of this thesis may be reproduced, stored in any retrieval system, or transmitted in any form, or by means (e.g., electronic, mechanical, photocopying, recording or otherwise) without the prior permission of the author, or The University of Namibia on my behalf.

I, Landuleni Shihwandu, grants The University of Namibia the right to reproduce this thesis in whole or in part, in any manner or format, which The University of Namibia may deem fit.

Signature  .....

Date: 07 April 2021

## CHAPTER ONE: INTRODUCTION

### 1.1 Introduction

Tax plays an important role in the economic growth of a country (Maganya, 2020). Given that SMEs are crucial for economic development, it is critically important that incentives are put in place to help SMEs have some basic understanding of their role in the economic development of the country and the entire world. Paying taxes is not a favourite for most persons and businesses, but for the government, and in particular its revenue collection agencies. Many persons would ask the question, why must we pay taxes? In what ways does the amount paid in taxes benefit us as a nation? Understanding the spirit behind the tax payment is vital and the perspectives of persons and business owners about this, is very important. According to Kostiainen (2018), there's a lot of tax avoidance and tax evasion in Namibia, "the number of taxpayers still seems to be quite low." There have been a number of cases that even state-owned enterprises have not been paying their taxes, or have been deducting PAYE from their employees but not handing it over to the revenue authority (Kostiainen, 2018).

This study aimed to assess the determinants of tax evasion among SMEs in Windhoek.

### 1.2 Background of the study

Taxes are said to be an immensely vital instrument and primary source of revenues to the government. These revenues are needed to finance critical programs (e.g., health care, education), services (e.g., law enforcement, public utilities), and infrastructures (e.g., road

construction, environmental protection) that are beneficial to the society. It is the role of government to build proper infrastructure and establish a regulatory framework for economic activities such as the energy regulatory framework which helps reduce reliance on imports (Adebisi & Gbegi, 2013). Tax payment is one of the major sources of revenue required to finance these activities; since it is used to redistribute income, stabilise the economy, and raise revenue for the provision of public goods and services (Sawyer, 2017).

Any country should have a proper functioning tax system that is able to promote equity and operate efficiently in attaining its developmental goals (Charmaine, 2018). Tax revenue deployment is a basis for supporting progressive activities in less developed economies worldwide. However, it has been extremely difficult to exploit tax revenue collection due to different forms of tax evasion (Worlu & Emeka, 2012). Jayeola (2010) elucidated that tax evasion is an attempt to escape tax liability solely or partly by violating the tax laws. Thus, tax evasion is a criminal act since it is achieved primarily by making a false declaration such as under-reporting income or over-reporting reliefs and allowances.

Tax evasion occurs when some taxpayers believe they do not receive adequate benefits in complying with tax regulations (Jayeola, 2010). As a result, they may be encouraged to develop behaviours of non-compliance to tax rules, despite their likelihood of knowing the importance of paying taxes. Tax evasion greatly hinders the process of economic growth and the development of most developing and emerging world economies including Namibia (James & Nobes, 2008).

The Namibian tax structure contains two (2) central direct taxes: corporate income tax, personal income tax and two foremost indirect taxes: Value Added Tax (VAT) and Value Added Tax on Imports. The Namibian tax system is regulated by the Income Tax Act and Value Added Tax Act 10 of 2000. Withholding tax is another tax head collected from the non-resident company holding shares in a company in Namibia and paid to the Receiver of Revenue. These taxes are collected and become obligatory to the Department of Inland Revenue and Customs excise in the Ministry of Finance. Namibia has a source based tax system which implies that Namibian residents and foreign nationals are liable to pay tax on the income generated in the country. Thus tax is imposed on taxable income of individual and corporate sourced within Namibia. The most common tax evasions which keeps on increasing and applies to SME's in Namibia are; corporate income tax, Value Added Tax (VAT) and Value Added Tax on Imports.

Even though, tax evasion may increase the resource accumulation of businesses; it negatively affects various sectors of the economy, through reduction in public service provision and misallocation of resources that could be used to fuel economic growth (Ameyaw & Dzaka, 2016). It also changes the distribution of income, creating a huge gap of income inequality. It further reduces the ability of governments to deliver on their responsibilities and duties in improving living standards for their citizens. This has largely weakened service deliveries by governments as revenue creation would have decreased due to tax evasion by both big businesses and SMEs in most parts of the world (Jayeola, 2010).

According to Johnson *et al.* (2000) tax evasion tends to impede economic growth because it prevents the government from providing adequate market support institutions,

infrastructure and growth of human capital, research and development. Tax systems may misrepresent the amount of revenue received by the governments, which may show a false increase of loss on income generation at any given time. Consequently, the costs of government's law enforcement to ensure tax compliance by all taxpayers increases, as more tax revenues are spent when little is being collected; and the ability to repay its debts is reduced (Folayan & Adeniyi, 2018).

Tax evasion is a global sensation that has been practiced in both developed and developing nations (UN, 2015). Therefore, vigorously confronting tax evasion is very crucial in overcoming illegal financial cash flows and to simultaneously close channels of corruption and misappropriation of funds globally (UN, 2007).

According to Murphy (2011) the worth of tax evasion worldwide exceeds approximately US\$3.1 trillion or 5.1% of global gross domestic product. Conversely, a report from Leadership (2013) shows that Mexico (\$476 billion), China (\$2.74 trillion), Malaysia (\$285 billion), Saudi Arabia (\$210 billion), Russia (\$152 billion), the Philippines (\$138 billion), Nigeria (\$129 billion), India (\$123 billion), Indonesia (\$109 billion) and finally the United Arab Emirates (\$105 billion) are the world's top ten countries with the majority of illicit financial depletions. This report additionally clarified that around 60-65% of the given amounts was due to tax evasion activities from the period of 2001-2010. Although there has not been any precise figure given to date, it is believed that Africa loses revenue from US\$50 billion to US\$65 billion every year through unlawful cash outflows including money laundering (Mansor & Gurama, 2016).

Several countries have suffered loss of tax revenues due to tax evasion. The United Kingdom estimates loss in tax revenues to be \$21 billion per year (Adams. D, 2013), Greece estimates loss in tax revenues to be \$30 billion per year (Daley, 2010). In developing countries, overall tax revenues loss due to tax evasion is estimated to be at \$285 billion per year (Cobham, A, 2005). The noncompliance behaviours of citizens have always forced most governments to increase tax rates thereby heaping most of the burden on individuals with favourable compliance behaviours. However, increment in such burdens towards the few citizens complying with taxes may not be economically viable on the basis of moral issues as well as social and cultural characteristics (Sherry, 2010).

There are approximately 40 000 registered Small and Medium Enterprise businesses in Namibia and according to Ogbokor & Ngeendepi (2012), about 31% of these businesses are logged as informal enterprises which usually do not pay taxes or keep receipts or conduct bookkeeping to pay their taxes annually. In 2009, the World Bank in collaboration with the Financial Intelligence Centre at the Bank of Namibia reported that most SME businesses are not registered and as a result do not declare their taxes.

Failure to comply with tax regulations is commonly described as tax evasion. There are several identified reasons that lead to tax evasion. The major reasons for tax evasion are exorbitant rate, complex and complicated tax structure and inefficient and corrupt government administration. Wadhwa and Pal (2012) found that the causes of tax evasion are high tax rates, corruption in public sector units, multiple tax rates and inefficient tax authorities. It has been suggested that reduction in tax rates, simplifications of tax laws, removal of loopholes in the tax system and to some extent proper processing of information available under the annual information return can be best tools for improving

tax compliance. Furthermore, in most scenarios, the SMEs' tax evasion issue may be attributed to lack of knowledge and poor understanding of the importance of tax payment (Jo Mara, 2011).

In general, Namibia loses over 9% of its GDP to tax evaders; including Value Added Tax (VAT), evasion of customs duties through smuggling and mispricing and corporate tax evasion such as misuse of special zero-percent VAT rate and improper or non-disclosure of personal income (Charmaine, 2018). Moreover, the Financial Intelligence Centre (FIC) in the second quarter (July to September 2019) and in the monthly report for October and November 2019, reported that there were approximately over 90 cases of potential tax evasion detected, which if quantified, represent a potential loss in state revenue of more than N\$ 1.67 billion in just three months of 2019 (FIC, 2019).

Generally, developing countries are confronted by challenges such as tax avoidance, corruption and bureaucrats that limit the optimal mobilisation of revenue because many companies misrepresent their profits, and many of the numbers are invented or falsified just to make sure that their tax obligations are very small.

Today the Namibian government tries to find ways to implement new tax policy and revive the dialog between the state and people, workers and entrepreneurs, with mutual support to strengthen the economy of Namibia. However, during the midterm budget review for the 2020/21 financial year, the Minister of Finance noted that this is not the time to introduce new taxes. Therefore, no changes will be made to individual income tax rates, corporate tax rates and indirect taxes, apart from sin taxes (Deloitte, 2020). The Minister did however note that tax administration measures would be pursued to achieve

equity and fairness in the tax system. Measures to combat tax planning and tax avoidance opportunities will also continue to be pursued. He also put out a warning that all Namibians that earn above the tax threshold of N\$ 50 000, irrespective of the type of economic activity, must pay tax (Deloitte, 2020).

Tax evasion is therefore amongst the major communal problems identified to prevent progressive development in developing countries. In consequence, there is a great and increasing interest amongst policy makers in developed countries, international agencies and scholars, to study and identify the determinants of tax evasion in developing countries.

The extent of the effect of both economic factors such as low income, high inequality; low levels of productivity, over dependence on agriculture, unemployment, under employment etc. and non-economic factors such as poor health, inadequate education, high rates of population growth, vulnerability in international relations etc, perception on equity and fairness of tax system may vary by society across the globe, depending on the level of law enforcement. Thus, country specific studies are important for identifying reforms essential in reducing the damaging effects of tax evasion. For this reason, this research therefore analysed both economic and non-economic factors, which influenced tax evasion by SMEs in Namibia, focusing on the capital city, Windhoek.

### **1.3 Statement of the problem**

Despite numerous stringent laws that punish tax evaders, people and businesses still employ techniques to evade taxes, sometimes with the support of tax administrators (James & Nobes, 2008). People engage in unregistered businesses with the motive of evading taxes, thereby posing a negative effect on economic growth (Ameyaw & Dzaka,

2016). Tax evasion equally leads to the misallocation of resources needed to fuel economic growth and development. Tax evasion misrepresents the tax system as it increases the weight loss while increasing government's law enforcement costs (Folayan & Adeniyi, 2018). Evasion also corrodes government revenues, which leads to a decline in the provision of public goods and weakens the government's ability to reach its goals. Furthermore, tax evasion diverts resources to unproductive activities, such as establishing financial subsidiaries to cover-up evasion (Slemrod, 2004). According to Johnson (2000) evasion tends to hinder economic growth because it prevents the government from providing adequate market supporting institutions, infrastructure, and growth of human capital, research and development. It also reduces government tax revenue and the ability to repay its long-term liabilities; a serious concern for many developing countries including Namibia.

Tax evasion hinders Namibia's government revenue collection. It consequently affects government's capacity to implement projects to strengthen the economy as it reduces the capacity of the state to mobilize domestic revenues, resources that are needed for investments. Alm (2013) concluded that attitudes represent the positive and negative evaluations that an individual holds of objects and it is assumed that attitudes encourage individuals to act according to them. Thus, a taxpayer with a positive attitude towards tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Attitudes towards tax evasion are often found to be quite positive therefore perception and attitude towards the tax system will have a great impact on compliance levels.

Tax evasion also damages the country's growth capacity by discouraging both local and foreign investors and undermines the funding of the state and the legitimacy associated

with the state through the delivery of public services (Charmaine, 2018). The high tax rate and burden in Namibia, which is related to the high levels of tax evasion, is a leading discouragement to business activity (Jo Mara, 2011).

Therefore, given that Namibia loses over 9% of its GDP to tax evaders, it is essential to understand the determinants of tax evasion and the attitudes of taxpayers in order to strive towards optimised revenue generation through effective and efficient tax collection. The problems of tax evasion cut across many countries developed and developing and the causes may vary between countries. Thus, country-specific evidence is essential to aid in the development of a better policy option towards reducing tax evasion.

#### **1.4 Objectives of the study**

The main objective of this study is to assess the determinants of tax evasion among SMEs in Windhoek. The specific objectives of the study were:

- To identify economic determinants of tax evasion by SMEs in Windhoek
- To identify non-economic determinants of tax evasion by SMEs in Windhoek
- To identify the effects of socio-demographic factors on tax evasion
- To examine the attitudes of taxpayers towards taxation

#### **1.5 Significance of the study**

The findings of this research are of value to the tax authorities, various stakeholders and researchers. The practices of identifying the economic and non-economic determinants, which have the strongest impact on tax evasion, provide concepts on which a framework for enhancing tax compliance can be developed. The Inland Revenue Department (IRD) will also gain insightful knowledge useful in implementing strategies and policies that reduce tax evasion practices. The awareness of these objectives will help the government

(State and Local government) and their agencies to formulate adequate tax policies with respect to tax revenue administration. It is also important for the tax authority to be kept informed of taxpayers' levels of knowledge so that it can effectively and efficiently communicate (i.e., current changes in tax laws) and design tax policies (for example, the tax rates, filing requirements and penalties).

### **1.6 Limitations of the study**

SMEs are less likely to provide true information about their tax evasion practices and what motivates them to evade tax. While data collection instruments do not contain information that could readily identify the respondents, the researcher ensured respondents of confidentiality. This helped improve on their response rate and accuracy of information provided.

### **1.7 Delimitation of the study**

This study is confined to the causes of tax evasion among business enterprises in Windhoek. The study focused only on businesses registered for tax obligation with the IRD and particularly business enterprises registered for tax obligation with IRD in Windhoek.

### **1.8 Terms**

**Tax evasion:** As defined by United States' Internal Revenue Service (IRS), tax evasion is the illegal attempt of an individual, company or organisation to minimise tax liabilities through fraudulent schemes or an intentional misrepresentation of material facts performed by the taxpayer with the specific purpose of evading a tax known or believed to be owed to the tax authorities (IRS, 2014).

**Tax avoidance:** The attempt of an individual, company or organisation to minimise tax liabilities legally or defined as being intentional, since an act of compliance requires both a tax being due and owed and a fraudulent intent not to pay it (Ritsatos, 2014).

**Tax compliance:** The willingness of an individual company or organisation to pay tax liabilities on time in the appropriate formats.

## 1.9 Summary

This chapter dealt with the introduction and background of the study. Further still, it laid bare the problem statement, research objectives and the research questions which the study sought to answer. Finally, the researcher also outlined the significance of the study, and thereafter, closed the chapter with limitations and delimitations. The remaining part of the thesis focuses on literature review presented in Chapter 2, research methodology presented in Chapter 3, results and discussions in Chapter 4 and conclusions and policy recommendations in Chapter 5.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

This chapter attempts to review the relevant literature and research related to Tax evasion. The chapter first defined the terms related to this study, then followed with the concept of Tax Evasion. Theories that are related to tax evasion were also discussed in this chapter. Furthermore, the chapter discussed the empirical review of the determinant of tax evasion. Under the empirical review, the researcher explicitly elucidated a number of economic and non-economic factors as key determinants of tax evasion. Lastly, the chapter looked at the conceptual framework of the study, which was also explained using a diagram.

### 2.2 Concept of Tax Evasion

Tax evasion is a word used to describe efforts of individuals and corporate entities towards dishonest reduction of tax liabilities. Vazquez (2001) defines tax evasion as a thoughtful and eagerness of parties of not unveiling comprehensive taxable income in order to reimburse lesser tax. This indicates that tax evasion is a criminal offence in view of the law. Tax evasion also involves taxpayers intentionally misrepresenting and covering the actual position of earnings in order to shrink tax payment to the tax authorities. The act of evading involves particularly dishonest and unfair tax reporting by declaring of abridged income, profit earned or exaggerating deductions.

Soyode & Kajola (2006) defined tax evasion as deliberate and wilful practices at not disclosing full taxable income in order to pay less tax. It is a deliberate violation of laws and it is evident in situations where tax liability is fraudulently reduced, or false claims are filled on the revenue tax form. According to Nwachukwu (2006) tax evasion is the

general term for efforts by individual firms, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of affairs to the tax authorities so as to reduce their tax liability. Eschborn (2010) defined tax evasion as an issue that has been in place as long as taxation itself. Tax evasion occurs when people or organisations deliberately fail to abide by their tax responsibilities. Adebisi & Gbegi (2013) defined tax evasion as a global phenomenon that has been practiced in both developed and developing nations.

Confronting tax evasion is essential in efforts to overcome illegal financial cash flows and close channels of corruption and wrongdoing. For this study, Tax evasion refers to the deliberate refusal of a taxpayer towards his/her tax obligation; it is a deliberate refusal to disclose one's source of income to the tax authority with the intention at paying nothing or something lesser than one's tax liability (Kagan, 2020).

### **2.3 Theoretical literature review**

The theoretical review is the structure that can hold or support a theory of a research study. The theoretical review introduces and describes the theory which explains why the research problem under study exists (USC Libraries, 2014). The following three theories are applicable to this study and are henceforth discussed below.

#### **2.3.1 Neo-classical Taxation Theory**

The neo-classical theory was developed by Mutt and Laffer (2000) and others and is based on the hypothesis that the state is obliged to remove problems to free market competition, since the market can and must control itself without external involvement. In addition, it can attain economic stability. According to this theory, taxation policy should be established under the same assumptions, like-taxes must be as small or affordable.

Otherwise, a high tax problem would delay economic action and limit the investment policies of firms, which would lead to a collapse in funds regeneration and an economic recession. A restricted taxation policy would permit the market to deliver self-sufficiently for fast development and would lead to a substantial expansion of the taxation base (Mbaknol, 2019).

### 2.3.2 The Principle of Equal Distribution

#### 2.3.2 Ability-to-Pay Principle

As the term proposes, it says that taxes should be charged according to a person's ability to pay (Kenton, 2020). It suggests that people, businesses or corporations with higher incomes can and should pay more in taxes rather than those who do not have (Ameyaw & Dzaka, 2016). The principle was initiated from the sixteenth century, by the Swiss philosopher Jean Jacques Rousseau. This is certainly the basis of progressive tax, which is the sum of tax rate increases as the taxable amount escalates. This opinion is indeed the most reasonable tax system and has been extensively used in developed economies. The usual and most maintained validation of ability to pay is on grounds of cost. The payment of taxes is watched, as a deficiency to the taxpayer because he/she gives up money to the government, which he/she would have used for his/her, own individual needs. Nevertheless, there is no solid method for the dimension of the equity of expense in this theory, as it can be restrained in absolute, comparative or marginal terms (Folayan & Adeniyi, 2018).

Advocates of ability-to-pay taxation argue that those who have benefitted most from the nation's way of life in the form of higher incomes and greater wealth can afford and should be obligated to give back a little more to keep the system running. The argument is that

the society that government tax revenue has helped build provides the environment (infrastructure such as highways and fibreoptic communications networks, a strong military, public schools, and a free market system) in which their success is possible and in which they can continue to enjoy that success (Julia, 2020).

### **2.3.3 The Principle of Equal Distribution**

According to this belief, tax liability should be so circulated between diverse persons that adjoining cost of usefulness of each individual who is paying the tax should be the same. John Rawls (2002) developed this principle, and it seeks to decrease the total loss of the people as a whole. When many individuals pay, lots of tax, that means their marginal sacrifice of benefit should be similar, as such the total utility loss of the humanity will be lowest. Hence, the principle looks at the trick of apportioning the tax accountability from the point of view of benefit to the entire society (Devos, 2006).

The social philosophy, fundamental to the principle is that the whole sacrifice charged by taxation on the public must be lowest. Therefore, the equal distribution principle approves a highly progressive tax structure. This taxation principle has been recommended among the researchers such as Edgeworth, Musgrave and Pig-out who expect this as the vital principle of taxation. It is said that Edgeworth who is the elevator of this principle proposes that least submission is the highest principle of taxation. The smaller the quantity of the cumulative tax sacrifice, the better sharing of tax liability in the public, (Jayeola, 2010).

## **2.4 Empirical evidence of tax evasions on SMEs**

Many scholars have studied tax evasion with a focus on individuals and organisations. However, very few studies have been conducted on tax evasion by SMEs. On the matter concerning tax issues, the recent study conducted by Gaaya et al. (2017) found that there is a positive relationship between family firms and corporate tax avoidance practices. Earlier, Desai and Dharmapala (2006) found that family companies often create opportunities to engage in tax avoidance activities. Martinez and Ramalho (2014) and Sanchez-Marín et al. (2016) found that there is a positive relationship between family firms and tax aggressiveness activities.

Meanwhile, there is a strong relationship between politically connected firms with the same family members on tax evasion activities found in the study conducted by Rijkers et al. (2017). Tanzi (2017) claimed that the issues of tax evasion are predominantly facilitated by corruption and further stated that corruption is the end product when the tax system is complex with too many objectives set by the government.

In contrast, Sapiei et al. (2014) found that company size has no relationship with tax evasion activities. a study conducted by Joulfaian (2000) on company and individual taxpayers revealed that company size has a negative and statistically significant relationship to tax evasion activities, suggesting that larger firms experience lesser noncompliance than their smaller counterparts.

## **2.5 Empirical evidence on the Determinants of Tax Evasion**

There is a strong difference between tax avoidance and tax evasion (Folayan & Adeniyi, 2018). One is legally accepted and the other is an offence of the law. Jayeola (2010)

pointed out that tax evasion is an attempt to escape tax liability (wholly or partially) either by under-reporting income or over reporting reliefs and allowances and tax avoidance on the other hand is an attempt to escape tax liability by dodging the law. Hence, even though the tax evader and tax avoider have a similar end (that is to, reduce tax liability) their means to that end differ (Jayeola, 2010). A tax evader is a criminal while the avoider is just a smart taxpayer who exploits loopholes in the tax laws (and related laws) to reduce tax liability. Kabel and Nwokah (2009) suggested that tax evasion is the fraudulent, insincere, intentional concealment of realities and numbers in order not to pay due taxes.

The key challenge to understanding the extent of tax evasion in Africa is lack of data and relevant evidence due to the sensitive and complex nature of micro surveys on the issue. Abasi and Haidaryemady (2012) conducted research to find out the reason of tax evasion by business individuals and employees in Iran. The study concluded that high tax rates, corruption, multiple tax rates and inefficient tax administration were the main reasons of tax evasion. Thure (2013) proposed a single comprehensive model containing the factors that have the most influence on tax compliance. The study further argued that, the issue of tax evasion and tax avoidance was the same in almost all countries of the world (Thure, 2013).

Several studies suggest a number of economic and non-economic factors as key determinants of tax evasion (Ameyaw & Dzaka, 2016; Vogel, 2004; Mason & Calvin, 2008; Kwlef & Achek, 2015). Economic factors include penalties, Tax rates, income level, and source of income, personal financial constraints and perception on government spending. Non-economic factors include: education, gender, age, tax mentality and tax morale, perception on equity and fairness of tax system.

### 2.5.1 Economic Factors

#### *Penalties*

This refers to a punishment measure set by the designated department for failure to file timely tax returns and filing wrong returns. It promotes tax compliance. In Namibia, taxpayers are required to submit or file their VAT, import and provisional tax returns within a specified period of time and if they fail to do so, a penalty of N\$ 100 for each day the return declaration remains outstanding is charged (Price Water Coopers, 2019). In addition, if the taxpayer fails to pay tax when it was due, there is a penalty of 10% of the tax amount payable for each month or part of the month the tax amount remains outstanding. These penalties can encourage taxpayers to evade paying tax (Charmaine, 2018). However, scholars argue that an increment in tax penalties beyond their required set limit is cost exorbitant due to probable “gathering” of voluntary compliance (Ameyaw & Dzaka, 2016).

Empirical evidence on the relationship between tax penalties and tax evasion also ranges from statistically no effect to a significant effect. Spicer and Lundstedt (1976) in their work two decades ago asserted that there is no significant relationship existing amongst tax evasion, tax penalties and detection probability (Spicer and Lundstedt, 1976). A similar research conducted by Allingham and Sandmo (1972) captured no effects between tax evasion and tax penalties. Yet, potential increments in penalties resulting from tax evasion indicate a corresponding decrease in taxpayers’ potential tax-evading behaviours.

In one of the papers that analyse tax compliance decisions by competitive firms, Virmani (1989) argues that evasion may increase with the rise in penalties. He suggests that firms respond to more severe penalties by lowering productivity in order to reduce the

probability of detection, which may outweigh the higher cost of evasion due to the increase in the penalty rate and thus lead to more evasion. He also suggests that when evasion is costless, small and medium enterprises may choose to evade completely, regardless of the tax rate. Comparative statistics by Cremer and Gahvari (1993) yield standard results that competitive firms reduce the proportion of their reported sales in response to higher taxes and lower audit probabilities.

### *Tax Rates*

This refers to the ratio at which a business enterprise and individuals are taxed, usually expressed as a percentage. Tax rates have been widely recognised as one of the most primary determining factors of tax evasion because there is a perception that high tax rates cause more organisations to evade tax and thus increasing non-compliance. Taxpayers who are aware that their tax rate is higher than average tax rate paid by others have higher records of tax evasion (James & Nobes, 2008). Increment in tax rates can increase tax evasion and strengthen the will of taxpayers to declare less income than what they are earning and reduction in tax rates can encourage more taxpayers to comply with the tax rules (Adebisi & Gbegi, 2013). A study by Jayeola (2010) concluded that tax rates correlate with the ability of the taxpayers to behave positively (for lower tax rate) or negatively (for high tax rate) towards the perception of tax evasion.

Taxpayers are using high tax rates as an excuse for evading taxes and under reporting their income and earnings to the tax authorities. James and Moses (2012) in their study on the effect of tax management on government revenue in an emerging economy, concluded that a positive relationship exists between tax rate and tax evasion. Maria and Judith (2013) found in their study that higher tax rate discourages tax compliance. However,

Fasina and Olowokere (2013) and Adebisi et al. (2013) found that there was a negative relationship between tax rates and tax evasion. On the other hand, Peter and Efiatoh (2013) in their study on behaviours of self-employed Nigerians concerning tax evasion concluded that neither a negative nor positive relationship exists between tax evasion and tax rates.

#### *Income level*

Income of individuals and businesses is taxed with the sole purpose of funding public activities. A study by Simon & Nobes (2018) concluded that tax compliance rate of middle-income earners is relatively higher than that of high and low-income earners. The reasons behind this are that they are worried about the punishment that comes along with non-compliance. The tax compliance of high-and low-income businesses is relatively low whilst some evidence from the literature hypothesises that low-income earners are highly engaged in the attitude of tax evasion (Johns & Slemrod, 2010). Thus, the literature suggests that there was a negative relationship between income level of taxpayers and tax evasion.

A study on tax evasion in Yemen, found that income level had a positive relationship with tax evasion (Khaled, Nor Aziah, & S, 2011). That is, how much a person earns defines the way he/she thinks in reporting and complying with the tax authorities. On the other hand, Lutfi (2009) found that income level has no significant relationship with tax evasion. This means that high- or low-income earnings, would not affect the taxpayer's decision to evade taxes.

#### *Income Source*

This refers to the source of the regular supply of money such as employment, investments, trading businesses, pension, farming and inheritances. The incomes derived from these sources is likely to influence tax evasion because the public is mainly engaged in freelancing, small trade volume and enjoying their inheritances, which makes it difficult sometimes to collect tax on such income (Julia, 2020). Tax evasion is actually common among the self-employed, especially those engaging in farming. However, it is believed that high-income earners are more likely to comply with the tax rules than the lower income earners (Akinyomi & Okpala, 2013). High-income earners are expected to display their wealth by complying with taxes while low-income earners are expected to hide their actual income from tax officials.

An argument by Richardson (2006) emphasized that the income component is a major driving force in curbing tax evasion. In furtherance, Richardson (2006) asserted that income source solely from wages and salaries minimises tax evasion to a considerable level. Nevertheless, works have also proven that there exists no statistically significant relationship between tax evasion and income (Feinstein, 1991).

Income source has an influence on tax evasion. SME taxpayers engaging in agriculture and self-employed professionals are most likely to evade tax, while taxpayers whose wage and salary need to be paid in advance tend to be the most difficult to evade tax (Richardson, 2006). Comparing with public sectors that had a motive of declaration of high profits, private enterprises were more willing to evade tax. Some income sources need no declaration in the United States, for example, income from farms or wholly foreign owned enterprises (Mughal & Akram, 2012).

The high noncompliance rate is particularly associated with self-employed income which has been substantiated through an indirect approach pioneered by Pissarides and Weber (1989) in the United Kingdom. They show that, basing on household characteristics and recorded incomes, the self-employed spend a higher proportion of their reported income on food, and they argue that this reflects an underreporting of income, not a higher propensity to consume food. After adjustment for the opposite variances of self-employment and employee incomes, Pissarides and Weber estimate that self-employed people in the United Kingdom on average underreported their income by about one-third (Pissarides and Weber, 1989).

#### *Perception on government spending*

This implies that compliance is based on the understanding of the public towards the government redistribution of income towards economic activities and the need for good public infrastructural development (Johns & Slemrod, 2010). Palil and Mustapha (2011) observed that studies on the relationship between the specific actual government spending and tax compliance, particularly on tax evasion, are very limited. They acknowledge that taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on (John, 2014). Although there is limited empirical evidence, it is reasonable to assume that taxpayers will tend to evade tax if they perceive that the government spends tax money unwisely (Palil and Mustapha, 2011).

Lewis (1982) as cited in Halil and Mustapha (2011) suggests that attitudes should be examined for the degree to which they are a product of misperception and myths. He argued that when myths and misperceptions are replaced by knowledge, a change in attitudes towards taxation will occur even if the taxpayers' basic ideology and values

remain unchanged and the tax law is unchanged. He also claimed that misperception probably plays a major role shaping fairness evaluations. Corroborating the view of Lewis (1982) and Roberts, Hite and Bradley (1994) also suggest that attitude to one's own tax evasion and attitude to other people's tax evasion are important. If the government is wisely spending the national revenue, for example for basic facilities like education, health & safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them, then taxpayers will feel betrayed and attempt to evade (John, 2014). The government should therefore prudently spend taxpayers' money to give taxpayers maximum benefits for their contributions to the public treasury at all levels.

#### *Financial Liquidity of Small and Medium Enterprises*

This is believed to have an impact on tax evasion because financial misery encourages most taxpayers to prioritise their spending patterns. Generally, businesses with low financial liquidity will try to influence their financial statement by either increasing their revenues or decreasing their expenditures to improve their profit (Lai and Yap, 2011). Having low liquidity is measured through the value of working capital, holding back companies from improving their daily operations. Spathis (2002) found that companies with low cost of working capital to total assets are more likely to misrepresent or misstate their financial statement either to improve the financial position's appearance or to acquire capital before dissolution. He further added that companies are more motivated to engage in fraudulent financial statements when they are doing poorly. However, OECD (2010) stated that taxpayers are willing to evade tax in order to avoid company losses. Hence, a

taxpayer who is not willing to evade tax at an early stage will become noncompliant in a distressed attempt to save his/her business.

Companies, which are financially delinquent and sequentially report tax losses, will attract tax authorities to conduct a tax audit (Mahmoud, 2010; Thanneermalai & Farah, 2010). In Malaysia, according to one of the IRBM senior tax officers, Pang (personal communication, March 29, 2011) mentioned that a company, which has financially delinquent and at the brink of closing down will attract tax auditors to initiate a tax audit. Tax audit will then be conducted to verify the accuracy of figures and check if they correspond with the reported figures in the submitted financial statements (Lai, and Yap, 2011). Therefore, it is sensible to assume that businesses with unreasonable and increasingly low financial liquidity would manipulate their financial statement in order to evade taxes. Zainal Abiddin et al. (2010) agreed with Rohaya et al. (2009) that low working capital ratio is associated with tax evasion. Thus, this study believes that SMEs with financial liquidity problems tend to be more noncompliant and there is a positive relationship between financial liquidity and tax evasion.

### **2.5.2 Non-economic factors**

#### *Education*

This refers to the level of tax knowledge and in some cases the level of educational attainment of the taxpayer. Taxpayers with low level of tax knowledge or low level of educational attainment tend to unwillingly escape paying tax without realising it and some would see it as a burden whilst those that have more knowledge would find ways to evade tax and this would reduce the redistribution of the economic resources that could help improve public services (Ameyaw & Dzaka, 2016). A study conducted on tax evasion and

avoidance of the self-employed in Nigeria concluded that there is a positive relationship between educational level and tax evasion (Khaled & Nor Aziah, 2011). The level of knowledge of the taxpayer determines the attitude to evade taxes (Peter & Ofiafoh, 2013). A study conducted on taxpayers' education in Lagos State, Nigeria, found that the knowledge level of the taxpayer is one of the key determinants of tax evasion. Studies have also shown that taxpayers with low knowledge levels are more likely to evade taxes because of inadequate awareness of the implication of doing so (Devos, 2006). In addition, Peter & Ofiafoh (2013) found that a negative relationship exists between tax evasion and educational level. On the other hand, a tax evasion study in New Zealand found a non-conclusive relationship between educational level and tax evasion (Ranjana, 2019).

#### *Gender*

It is believed that businesswomen are more compliant to the tax rules than businessmen and married people tend to evade tax less than the single people (Richardson. G, 2006). This is based on the perception amongst our communities that female' taxpayers do not tolerate tax evasion behaviours. A lot of research on key factors of tax evasion have included gender as the key variable. Lazutina (2016) observed that analysing the level of tax compliance between males and females proved that women comply than their male counterparts. A potential justification of this argument can be a behaviour that is more conservative; ethical restraints which are influencing people that can adhere to tax rules like females and not rule-breakers, as a dominant part of male behaviours which results in promoting compliance among females. Lazutina (2016) therefore concludes that females' consciousness in being tax compliant is significantly higher than that of males, hence gender has a negative relationship with tax evasion.

Most studies found that females were more compliant to tax rules, but the evidence is less reliable than that between age and compliance. Witte and Woodbury (1985); Porcano, 1988 and Beron et al. (1992) found that males are less compliant than females. While Keenan and Dean (1980)'s results indicated males were condemned of tax default more than females did, the result of Richard and Tittle (1981) was exactly the opposite.

### *Age*

It is a significant factor, as it is evident that older businesspeople comply more with tax rules than the young ones. Young taxpayers take more risks and are less sensitive to penalties imposed on tax for late returns and outstanding payments (Tittle, 1980). Ameyaw and Dzaka (2016) in their research concluded that aging taxpayers tend to be more compliant than the younger taxpayers. They further emphasised that taxpayers who are retired comply more with tax the rules than the young people. The sequential age of taxpayers is one of the most important determinants of tax evasion (Jackson & Milliron, 1986).

Studies find that older taxpayers are commonly more compliant than young taxpayers (Tittle, 1980; Feinstein, 1991; Dubbin & Wilde, 1988). Tittle (1980) explains the relationship between age and tax deviance as attributable to developmental variation generational differences. Young taxpayers can take high risk and are less sensitive to penalties, which reflects on social and psychological dissimilarities (a generational difference). Although a positive correlation was repeatedly claimed, several authors find this link insignificant (Lazutina, 2016; Tittle, 1980; Feinstein, 1991; Dubbin & Wilde, 1988).

### *Tax mentality and tax morale*

This refers to the attitudes and perceptions of taxpayers towards paying and evading tax. Individuals may be influenced by others and tend to evade tax simply because of peer pressure (Luttmer & Singhal, 2014). Evidence by Luttmer & Singhal (2014) suggested that taxpayers might have some intrinsic motivation to pay taxes and yet feel guilty of failing to comply.

There is growing scrutiny by researchers and policy makers on the effectiveness of the traditional deterrence instruments to reduce tax evasion. Spicer and Lundstedt (1976) elucidated that the choice between tax compliance and tax evasion is not only made on the grounds of authorisations but also on the grounds of a set of approaches. According to Fishbein (1980) and Lewis (1982) manners can be anticipated from people's attitudes. This is a clear indication that there is a connection between tax mentality, morale and tax evasion. The tax compliance literature has shown the relevance of going beyond neoclassical approach when trying to understand why citizens pay taxes (Torgler, Demir, Macintyre, & Schaffner, 2008).

In the A-S model, the portion of income declared, or tax paid on earned income escalates with higher expected fines. For example, both developed and developing countries are trying to enhance tax mentality and morale through a variety of discouragement measures such as fines and regular audits. Feld and Larsen (2005) argue that tax evasion is significantly influenced by tax morale, which, in turn, is shaped by an implicit psychological contract between the government and its citizens. When citizens receive a fair share of public services, they are more likely to pay their taxes. Other discouragement

measures can involve harsher measures such as penitentiary terms (Spicer and Lundstedt, 1976).

#### *Perception on equity and fairness of tax system*

This refers to the representation of the exchange of contribution and benefit between the taxpayers and the government. It relates to the balance of taxes paid and the delivered public goods or services and the perceived procedurals and penalties imposed for breaking the tax rules (Akinyomi & Okpala, 2013). Orkaido Deyganto (2018) stated that this is one of the main principles of the tax system design which can be viewed through three dimensions, namely: horizontal equity - “people with the same income or wealth brackets should pay the same amount of taxes”; vertical equity - “taxes paid increase with the amount of the tax base or taxable income” and Exchange Equity - “expect the same share of public service from government for paying tax”.

It is commonly accepted that perceptions on equity and fairness of tax system and tax evasion are related (Jackson & Milliron, 1986). Spicer (1974) found a noteworthy negative relationship between equity fairness of tax system and tax evasion. Song and Yarbrough (1978) also found a noteworthy negative relationship between these components, with at least 75% of taxpayers focusing their motion on the fairness of the concept of ability to pay which can be more significant to tax evasion. Furthermore, Hite and Roberts (1992) find that fairness is substantially, related to perceptions of an improved tax system and that fairness and tax evasion are negatively connected.

#### *Simplicity of taxation system*

Tax systems are in many cases expected to simplify the administration work and reduce the burden of taxpayers' costs and the difficulty faced in completing their returns and thus complying with the tax rules. It also raises revenue, reallocates and redistributes the economic resources. For example, Namibia has a new tax system that was implemented earlier this year to administer the tax laws in an efficient and effective manner to maximise state revenue from internal taxation sources. If tax systems are complex, it becomes easier for the taxpayers to evade tax. Mughal and Akram (2012) for example, found a significant relationship between tax evasion and the tax system in their study on tax evasion and tax avoidance in Pakistan. The finding suggests that Tax Systems contribute positively toward taxpayers' perspective. The study also concludes that the Tax System motivates taxpayers to comply or not to comply voluntarily with the tax authority (Mughal & Akram, 2012).

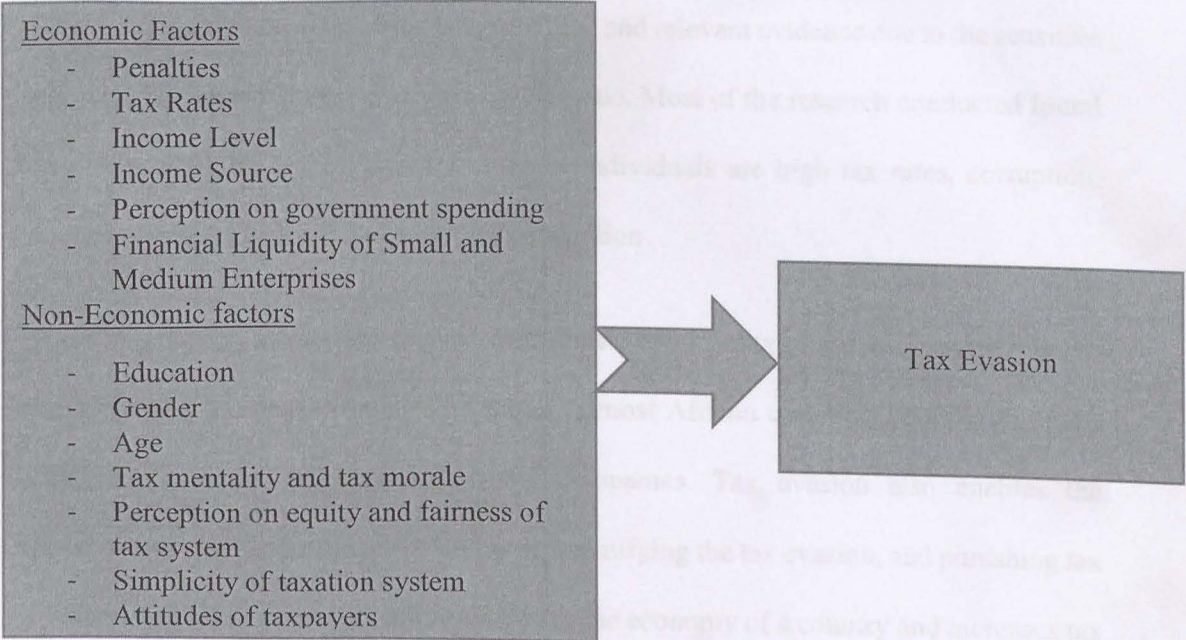
#### *Attitude of taxpayers*

The extent to which the taxpayers perceive a tax system to be reasonable influences their attitude to pay their taxes. Abdul-Razak & Adafula (2013) suggested that, a taxpayer whose motive is to validate his beliefs in the system will evaluate the fairness of the system with neutrality and objectiveness while the taxpayer whose attitude is motivated by what benefits are derived from the system may only then take the tax system as fair if it is benefiting him/her. However, Richardson (2006) also indicated that perceived fairness of the tax system is significantly related to tax non-compliance while (Devos, 2006) found that taxpayers distressed about fairness of the tax system have associations with behavioural intentions about tax compliance and a positive relationship with the attitudes of taxpayers.

Taxpayers' anticipations are that the revenue generated by the government from taxes should be distributed equally to stabilize the economy (Young, 2013). Where this is missing, it can cause a loose attitude in taxpayers' obligation to pay their taxes. Thorndike (2009) validates this as he proposed that citizens must comply with their tax obligations as part of their benefits, while government is expected to deliver services to the public.

### 2.6 Conceptual framework

A conceptual framework is a written or visual presentation that explains either graphically, or in descriptive form, the main things to be studied, the key factors, concepts or variables and the presumed relationship among them (Sawyer, 2017). The figure below shows the theoretical model representing the nature of affiliation between the independent variables and the dependent variable:



**Figure 2.1: Theoretical model representing the nature of affiliation between the independent variables and the dependent variable.**

*Source: Researcher's own construct (2020)*

The variable in the rectangle at the right side (tax evasion) is the dependent variable and the other variables such as (economic and non-economic factors) that are listed in the rectangle at the left side are independent variables.

## **2.7 Summary**

Tax evasion is one of the important research issues in many African countries. Certainly, there are many reasons stressing the importance of tax evasion, but the most evident reason is that it reduces the tax revenue of the economy and lowers the levels of public services provided to the taxpayers (Sawyer, 2017). However, the key challenge to understanding the extent of tax evasion in Africa is lack of data and relevant evidence due to the sensitive and complex nature of micro surveys on the issue. Most of the research conducted found out the reasons for tax evasion by business individuals are high tax rates, corruption, multiple tax rates and inefficient tax administration.

There is however, a noted inadequate distribution opportunity of public resources due to tax evasion, which has brought destruction to most African countries, leading to unfair distribution of the tax burden between companies. Tax evasion also enables the government to spend resources by auditing, quantifying the tax evasion, and punishing tax evaders. Tax evasion causes additional loss to the economy of a country and increases tax compliance cost. If there is a need to design a suitable policy to ensure tax compliance, it is essential to examine carefully the motivation of taxpayers to comply with the tax rules.

In recent years, most literature has studied tax evasion, but most of the scholars investigated the problem from the economy field. Therefore, in addition to focusing on the economic and non-economics determinants of tax evasion, one should aggressively explore the non-economic factors such as simplicity of the tax system, age, perception on equity and fairness of the tax system, tax mentality and tax morale.

Researchers should use empirical analysis methods to study tax compliance from multiple perspectives such as cultural, tax fairness and tax moral. Then, one can be broader in understanding the determinants of tax evasion, enhancing citizens' tax consciousness, improving citizens' tax compliance. At the same time, the author thinks that studying the determinants of tax evasion in detail also have some certain theoretical value and practically significant contributions to tax law enforcement.

### 3.3 Research design

Research design is the plan, process and strategy to obtain information to address the research and control variables (Hass, 2010). There are two kinds of research design: qualitative and quantitative research. The distinction between qualitative research and quantitative research are that qualitative is heavily based on words or using words and researcher-based questions.

Besides the two basic research methods, Creswell also proposed another research approach, mixed methods research. Mixed methods research is an approach, where the researcher uses research methods, qualitative and quantitative to collect data. It integrates the two forms of data using different designs that may have one predominant method.

## CHAPTER THREE: METHODOLOGY

### 3.1 Introduction

This chapter sheds light on the research methods used and the method of data collection. The chapter begins with the research design used, the sources of information and the data collection method. It also presents information on the population of the study, the validity and availability of information as well as the ethical considerations.

### 3.2 Study area

Windhoek is the capital city of Namibia with the largest population of registered tax-paying businesses. The city is located in the centre of Namibia on a highland plateau about 1,700 m (5,600ft) above sea level in the Khomas Region of the country. Windhoek population numbers range between 300,000 to 430,000 inhabitants.

### 3.3 Research design

Research design is the plan, structure and strategy to obtain information to address the question and control variance (Ram, 2010). There are two kinds of research design commonly used by the researcher, qualitative and quantitative research. The distinction between qualitative research and quantitative research are that qualitative is basically framed in terms of using words and non-structured questions.

Besides the two basic research methods, Creswell also proposed another research approach, mixed methods research. Mixed methods research is an approach to inquiry that combines two research methods, qualitative and quantitative to collect data. It integrates the two forms of data using distinct designs that may involve philosophical assumptions

and theoretical frameworks. This combination provides more complete understanding (Creswell, 2013).

The researcher used mixed methods research combining qualitative data and quantitative data. Qualitative method in this research dominated the research methodology, because the researcher used documentation and observation as an instrument for data collection, and the data was changed into transcripts, typically characteristic of qualitative method. This research also used numbers, percentages as the result, typically characteristic of quantitative method. This was needed to provide complete research and valid results.

This study will follow a descriptive research approach. A descriptive was selected because it provides an accurate portrayal or account of the characteristics, for example behaviour, opinions, abilities, beliefs, and knowledge of a particular individual, situation or group (Burns & Grove, 2011).

### **3.3.1 Research philosophy**

Scientific research philosophy is a system of the researcher's thought, following which new, reliable knowledge about the research object is obtained. In other words, it is the basis of the research, which involves the choice of research strategy, formulation of the problem, data collection, processing, and analysis (Žukauskas, Veinhardt, & Andriukaitienė, 2018).

This study followed the pragmatism paradigm. Pragmatism as a research paradigm finds its philosophical foundation in the historical contributions of the philosophy of pragmatism (Maxcy, 2003) and, as such, embraces plurality of methods. As a research

paradigm, pragmatism is based on the proposition that researchers should use the philosophical and/or methodological approach that works best for the particular research problem that is being investigated (Teddlie & Tashakkori, 2009). It is often associated with mixed methods or multiple-methods (see Biesta 2010; Creswell and Clark 2011; Morgan 2014; Teddlie and Tashakkori 2009), where the focus is on the consequences of research and on the research questions rather than on the methods.

Pragmatism offers an alternative to both positivism and interpretivism. Pragmatism “sidesteps the contentious issues of truth and reality, and accepts philosophically, that there are singular and multiple realities that are open to empirical inquiry and orients itself toward solving practical problems in the real world” (Creswell & Clark 2007). Pragmatism research philosophy accepts concepts to be relevant only if they support action. Pragmatics “recognise that there are many different ways of interpreting the world and undertaking research, that no single point of view can ever give the entire picture and that there may be multiple realities” (Saunders, Lewis, & Thornhill, 2012).

### **3.4 Data source**

The study was conducted with the focus of observing the determinants of tax evasion by focusing on Small and Medium Enterprises (SMEs) in Windhoek. In this study, the researcher used both primary and secondary data. Considering the scope of the research, a survey was conducted whereby questionnaires were designed and used for different respondents. The secondary data was taken from different sites such as the Ministry of Finance, Ministry of Trade and Industry and many more sites that had records of tax related to business information such as the number of registered SMEs in Windhoek.

### **3.5 Data collection procedure**

The researcher used a questionnaire to collect data whereby questions were directed to the small business owners in Windhoek. The researcher explained the main aim of the study before handing out the questionnaire (Susan, 2011). The questionnaire was prepared in a simple national language “English” which is understood by many and it helped reduce language-understanding barriers. The questionnaire was adopted and developed with some modification from previous similar studies such as (Palil, 2010; Ameyaw and Dzaka, 2016; Mansor & Gurama, 2016).

### **3.6 Data Collection Instrument**

The purpose of data collection is to uncover the facts related to the variables (Ardiyani, 2015). The study made use of the questionnaire which consisted of both unstructured and structured formats to allow respondents to voice their feelings freely. A questionnaire is an instrument to collect data by giving a set of questions or written statements to the respondents to answer (Sugiyono, 2010). Questionnaires are economical; they can supply a considerable amount of research data for a relatively low cost in terms of material, money and time (Denscombe, 2014).

The questionnaire consisted of structured questions in the Likert scale format. The use of Likert scale questions made it easier for understanding, reduced confusion in reading and answering the questionnaire by respondents. The five-point Likert scale was used in scaling down the responses from respondents, where: Strongly Agree = 5; Agree = 4; Neutral =3, Disagree = 2; and Strongly Disagree = 1; for continuous variables. The questionnaire also consisted of other structured questions. The questionnaire consisted of three sections which are as follows:

**Section A:** Demographic information: Age, Gender, Marital status, Level of education.

**Section B:** Business operation: Year of establishment, years of operation, Annual income, Sector of operation.

**Section C:** Economic and non-economic factors that determine tax evasion.

### **3.7 Population**

A population is all the individuals or units of interest in a research and it refers to all the members that meet the specific standard specified for a research to be investigated (Banerjee & Chaudhury, 2010). For the purpose of this study, the population consisted of all SMEs that were operating in Windhoek, a city in the Khomas region. According to the records of the Ministry of Trade and Industry, there are only 11 000 SMEs registered in that area as obtained from the Integrated Tax Administration System (ITAS) database.

### **3.8 Sample and sampling method**

A sample is a subsection of the individuals in a population and there is usually data available for individuals in samples. For purposes of this study, purposive sampling (where sampling units were selected based on respondents known to pay or eligible to taxes) was used to sample the participants for the study. According to Arikunto (2010), purposive sampling is the process of selecting sample by taking subject that is not based on the level or area, but it is taken based on the specific purpose. According to Palinkas (2015), purposeful sampling is widely used in research for the identification and selection of information-rich cases related to the phenomenon of interest. Out of the 11 000 SMEs registered with ITAS, the study sampled 100 respondents in determining factors influencing tax evasion in Windhoek. This sample was selected looking at the time that

was left for the researcher to complete the study, given that the researcher is full time employed and time was one of the limiting factors that was looked at to determine the sample size.

### 3.9 Data Analysis

The data collected was analysed using Statistical Package for the Social Sciences (SPSS) version 26. In particular, the descriptive statistics analysis and multiple regression models were used to analyse the data generated. Descriptive statistics was used to identify economic and non-economic determinants of tax evasion by SMEs in Windhoek. Regression was used, with socio-demographics as variables to identify their effect on tax evasion. The socio-demographics used were gender, age, education and marital status as independent variables. We used an equation in the following form:

$$TE = \beta_0 + \beta_j X_j + \varepsilon.$$

The model used in this study is as follows:

$TE = \beta_0 + \beta_j X_j + \varepsilon$  whereby  $X_j$  represents the independent variables which includes non-economic and economic factors. Tax evasion (TE) represents the dependent variable and  $\varepsilon$  is the error term or other variables, which were not tested in the study. There are 4 independent variables: Gender ( $X_1$ ), Age ( $X_2$ ), Level of Education ( $X_3$ ) and marital status ( $X_4$ ). The dependent variable (**Tax evasion**) in the study is a categorical variable.

Therefore,

Tax evasion: 1 if company/SME evades tax and 0 if otherwise

The data received was entered into the Statistical Package for Social Science (SPSS). The data was analysed using descriptive analysis to identify the frequency distributions, means

and standard deviations. The descriptive analysis is relevant to address the research questions of this study. Where possible, rank-order of data was analysed from means to investigate some of the relevant questions in order to determine the importance of preference.

### **3.10 Ethical considerations**

Given the importance of ethics in conducting research and the challenges around conducting research, universities go to great lengths to protect the dignity and safety of research participants (Silverman, 2009). Several ethical considerations were considered to ensure that the study was conducted in an appropriate manner.

#### **3.10.1 Protecting confidentiality and anonymity**

Confidentiality of information supplied by research participants and the anonymity of respondents must be respected (Parveen, 2017). This study ensured that all the questions were entirely anonymous and untraceable back to the respondents. Respondents were further advised that their information would remain confidential and that the specific contents of individual interviews would only be discussed with the University of Namibia (UNAM).

#### **3.10.2 Obtain informed consent.**

Free and informed consent incorporated an introduction to the study and its purpose as well as an explanation of the selection of the research subjects and the procedures that would be followed. Informed consent seeks to incorporate the rights of autonomous individuals through self-determination (Ram, 2010). It also seeks to prevent assault on the integrity of the patient and protect personal liberty and veracity. To comply with ethical

considerations in conducting research all participants were provided written consent (Johnstone, 2009). A written consent was attached (Appendix A) on each questionnaire and respondents were required to sign it.

### **3.10.3 Voluntary participation**

The purpose of the research was explained to the participants and the participants were informed that should they wish to withdraw at any point during the interview they were free to do so at any time without negatively impacting on their involvement in future services or their relationships with any of the researchers (Marshall, 2014). When a participant chose to withdraw from the research process, they were not pressured or coerced in any way to try and stop them from withdrawing.

### **3.10.4 Minimising the risk of harm**

In this study, participants were not harmed. A fundamental principle in moral philosophy is nonmaleficence, which identifies ethical duties to avoid causing harm to others. In order to minimise the risk of harm, the following was done in this study, anonymity was ensured by not disclosing the former student's name on the questionnaire and research reports and detaching the written consent from the questionnaire. Confidentiality was maintained by keeping the data confidential and did not reveal the subjects' identities when reporting or publishing the study. The researcher explained that participation was voluntary; that they could refuse to participate, and that they have the right to withdraw from the study at any time should they so wish.

### 3.11 Summary

This chapter highlights the different approaches applied in the execution of this study, whereby the research sample was selected through purposive sampling. It also gave an outline on various research instrument used namely: questionnaires. The Chapter mostly concentrated on the research methods, which the researcher selected as suitable in obtaining and achieving the research objectives. The main aspects discussed are the research methods that the researcher carefully chose as suitable for this study and why they were selected as such. Research design, population of the study, the sampling procedures and the research tools as well as data analysis process were given wide attention in this chapter. The next chapter presents the results and discussions to come up with the findings of the entire study.

## CHAPTER FOUR: RESULTS AND DISCUSSIONS

### 4.1 Introduction

This chapter presents the results and discusses them to come up with interpretations from 73 questionnaires completed by SME owners that operate in Windhoek. The main objective of this study was to examine the factors that determine whether a taxpayer would evade tax or not. The specific objectives of the study are:

- To identify economic determinants of tax evasion by SMEs in Windhoek
- To identify non-economic determinants tax evasion by SMEs in Windhoek
- To identify the effects of socio-demographic factors on tax evasion
- To examine the attitudes of taxpayers towards taxation

Questionnaires were given to SME owners or SME members (with permission from the owner) in Windhoek. After signing the consent form indicating their willingness to participate in the study, SME owners or members completed the questionnaires. The consent form was signed online before the questionnaire was completed. However, the confidentiality clause was strictly applied from data collection, data analysis and reporting; hence no name was attached to any response.

A total of seventy-three (73) out of 100 participants completed questionnaires between 03 September 2020 and 20 September 2020. The data from the questionnaires was statistically analysed. SPSS version 26 software was used for data analysis. The findings are discussed according to the sections of the questionnaire. The two sections of the questionnaire were:

**Section A:** Demographic information: Age, Gender, Marital status, Level of education

**Section B:** Business operation: Year of establishment, years of operation, Annual income, Sector of operation

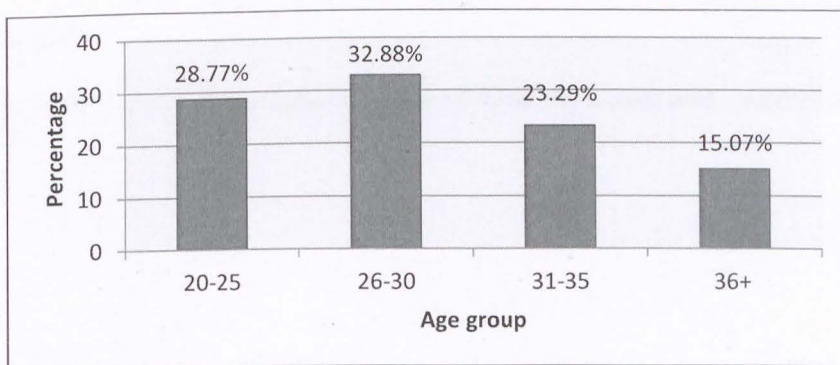
**Section C:** Economic and non-economic factors that determine tax evasion.

The chapter was divided into different sections using the four objectives of the study as mentioned above. However, first, the descriptive statistics of the demographic information was analysed and interpreted.

## 4.2 Demographic Information

### Age group

The majority (33%) of the respondents fall in the age group of 26-30 years, followed by 20-25 (29%) and the least is 36 years and above age group (15%). This indicates that most of the SMEs operators and owners are the youth as shown in Figure 4.1 and are found to not comply with tax rules. Similarly, a study by Braithwaite and Reinhart (2006) found that, younger people were found to be less compliant in attitude and behaviour than older people.

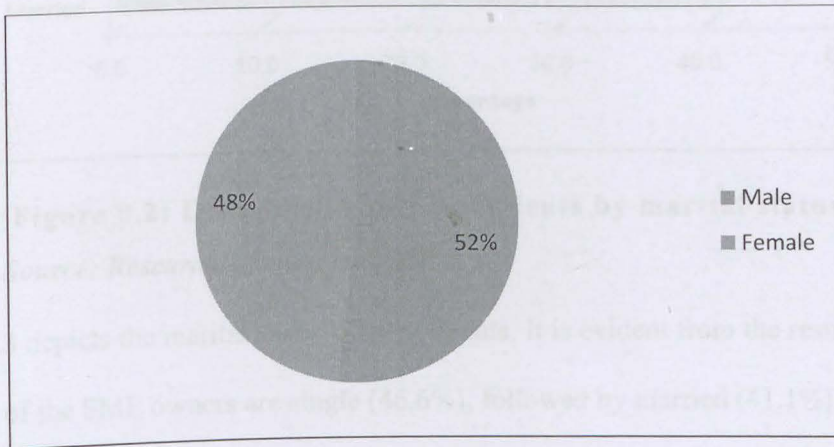


**Figure 0.1: Distribution of respondents by Age**

*Source: Research's findings, 2020*

### **Gender**

The study also looked into the gender of the SME operators and owners as shown in Figure 4.2 below.



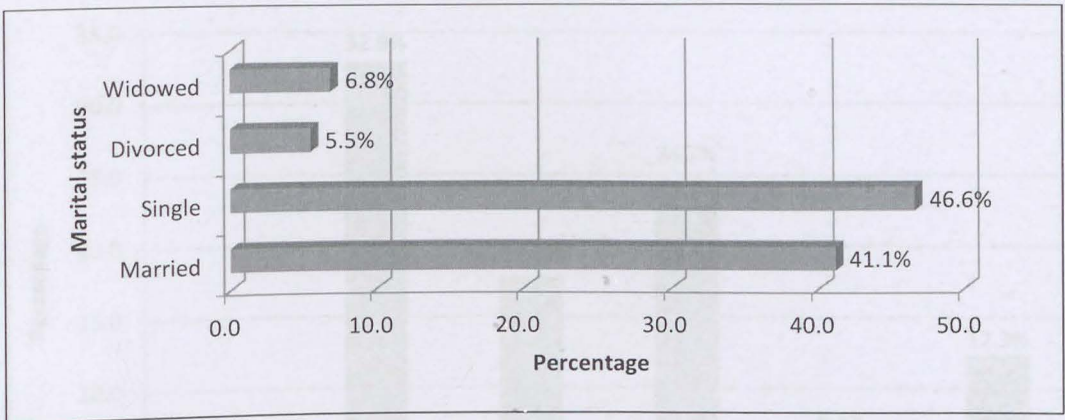
**Figure 0.1: Distribution of respondents by gender**

*Source: Research's findings, 2020*

The results show that there are more males (52%) than females (48%) in the SME sector in Windhoek and they do not comply with tax rules. These results concur with the findings by Fallan (1999) who found that females are more exposed to tax knowledge in a way that makes them reconsider their attitude towards other people's tax evasion than their male peers.

### **Marital status**

The study further assessed the marital status of SME operators and owners as shown in Figure 4.3.

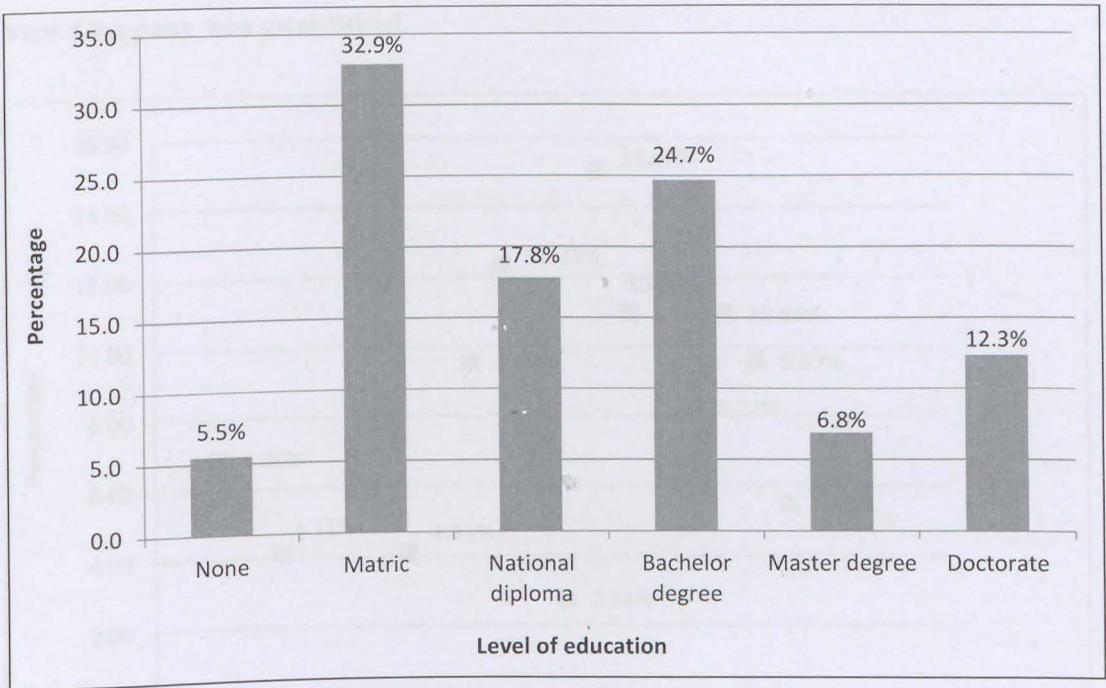


**Figure 0.2: Distribution of respondents by marital status**  
*Source: Research's findings, 2020*

Figure 4.3 depicts the marital status of respondents. It is evident from the results that the majority of the SME owners are single (46.6%), followed by married (41.1%). Widowed and divorced constitute 6.8% and 5.5% respectively.

### **Level of education**

The level of education is amongst the top factors that contribute to tax evasion in Namibia. The study looked into the level of education of the participants as shown in Figure 4.4 below.

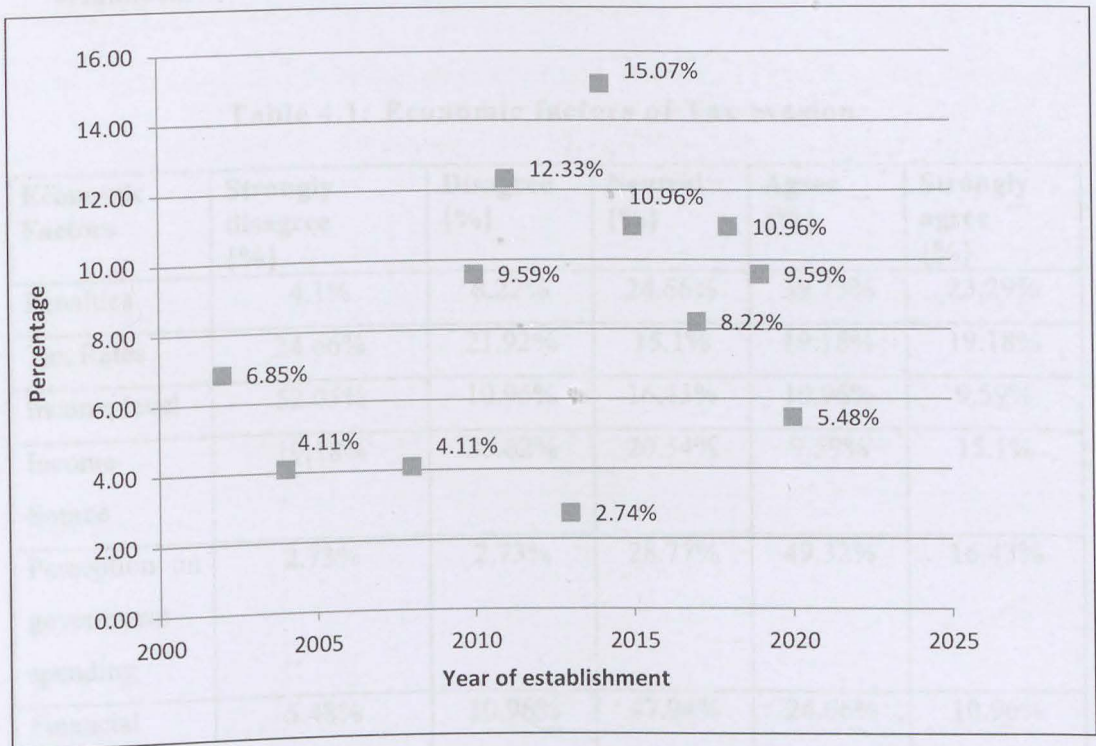


**Figure 0.3: Distribution of respondents by level of education**

*Source: Research's findings, 2020*

The results show that the majority of the respondents hold matric qualifications (32.9%), followed by the respondents who hold bachelor's degrees (24.7%). Respondents who hold national diploma constitute 17.8% while 12.3% are those with doctorates. About 5.5% has no qualification and only 6.8% has masters' degrees.

### Year Company was established.



**Figure 0.5: Year of company establishment**

*Source: Research's findings, 2020*

The study sought to find out the year of SME establishment. According to the respondents, the majority of the participants indicated that their companies were established in 2014 (15.07%) followed by the companies that were established in 2011 (12.33%). Companies established in 2018 constitute 11% and 2019 were 10%. All the companies that participated in the study were established between 2002 and 2020. This then also translates to the number of years the companies have been in operation, although some companies did not start operating in the years of establishment.

**4.3 Objective 1: To identify economic determinants of tax evasion by SMEs in Windhoek.**

**Table 4.1: Economic factors of Tax evasion**

<b>Economic Factors</b>	<b>Strongly disagree {%}</b>	<b>Disagree {%}</b>	<b>Neutral {%}</b>	<b>Agree {%}</b>	<b>Strongly agree {%}</b>
Penalties	4.1%	8.22%	24.66%	39.73%	23.29%
Tax Rates	24.66%	21.92%	15.1%	19.18%	19.18%
Income level	52.05%	10.96%	16.43%	10.96%	9.59%
Income Source	19.18%	35.62%	20.54%	9.59%	15.1%
Perception on government spending	2.73%	2.73%	28.77%	49.32%	16.43%
Financial constraints	5.48%	10.96%	47.94%	24.66%	10.96%

*Source: Research's findings, 2020*

The study sought to identify the economic determinants that influence tax evasion of SMEs in Windhoek. Regarding the penalties, the majority (39.7%) of the respondents agreed that penalties influence tax evasion while 23.29% strongly agreed. The minority (12.32%) of the respondents either strongly disagree or disagree with the statement. From the findings, tax rates seem to not have an influence on tax evasion as about 24.66% of the respondents strongly disagreed and 21.92% agreed. Income level and income source does not have an influence on tax evasion as the majority (52.05% and 35.62% respectively) of the respondents strongly disagreed. The majority (49.32%) of the respondents agreed that the perception on government spending has an influence on tax

evasion amongst the SME owners in Windhoek and there were only 2.73% of the respondents who did not agree strongly. On financial constraints, the majority (47.94%) of the respondents had mixed feelings (neutral). However, 24.66% of the respondents agreed that the financial constraints have an influence on tax evasion of SMEs in Windhoek.

**4.4 Objective 2: To identify non-economic determinants tax evasion by SMEs in Windhoek.**

**Table 4.2: Non-economic factors of Tax evasion**

Non-Economic Factors	Strongly disagree {%}	Disagree {%}	Neutral {%}	Agree {%}	Strongly agree {%}
Tax mentality and tax morale	10.96%	9.59%	15.1%	39.73%	24.66%
Perception on equity and fairness of tax system	5.48%	2.73%	8.22%	32.88%	50.68%
Simplicity of taxation system	23.29%	54.8%	5.48%	6.85%	9.59%
Attitudes of taxpayer	5.48%	2.73%	27.4%	43.83%	20.54%

*Source: Research's findings, 2020*

Objective 2 of the study aimed to identify the non-economic influence to tax evasion in SMEs in Windhoek. The majority (39.73%) of the respondents agreed that Tax mentality and tax morale has an influence on tax evasion while 24.66% strongly agreed and only 10.96% strongly disagreed with the statement. Regarding perception on equity and fairness of the tax system, 50.68% of the respondents strongly agreed that perception on

equity and fairness of the tax system influences tax evasion and 32.88% of the respondents agreed. The other 8.21% of the respondents either disagreed or strongly disagreed.

On simplicity of the taxation system, most (78.09%) respondents indicated that it does not influence tax evasion and only about 17% of the respondents agreed that the simplicity of the taxation system influences the evasion of tax. Furthermore, attitude of taxpayers was also studied, and it was found that it influences tax evasion as 64.37% agreed and or strongly agreed. About 8% of the respondents do not agree that taxpayer's attitude influence tax evasion.

#### 4.5 Objective 3: To identify the effects of socio-demographic factors on tax evasion.

With reference to Weirs (2008), multiple regression analysis is an analysis which involves one dependent variable and two or more independent variables. In other words, it is an analysis of association in which the effects of two or more independent variables on a single, interval-scaled dependent variable are investigated simultaneously (Zikmund, 2010).

**Table 4.3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.267 <sup>a</sup>	0.071	0.017	0.49882

a. Predictors: (Constant), Marital, Education, Age, Gender

**Source: Research's findings, 2020**

Based on the table above, it shows that the value of correlation coefficient (R squared) is 0.071 which indicates that the independent variables could explain 7.1% of the variation in the dependent variable.

**Table 4.4: ANOVA table**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.299	4	0.325	1.305	0.002 <sup>b</sup>
	Residual	16.920	68	0.249		
	Total	18.219	72			

a. Dependent Variable: TE

b. Predictors: (Constant), Marital, Education, Age, Gender

**Source: Research's findings, 2020**

Table 4.4 above shows that P-value (Sig 0.002) is less than alpha value 0.05. With  $F = 1.305$  and 72 degrees of freedom the test is highly significant, thus we can assume that there is a linear relationship between the variables in the model.

**Table 4.5: Results of the parameter estimate on Tax Evasion**

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.189	0.309		3.840	0.000
	Age	0.009	0.057	0.018	0.153	0.002
	Education	0.078	0.041	0.226	1.932	0.000
	Marital	0.065	0.070	0.111	0.940	0.004

a. Dependent Variable: TE

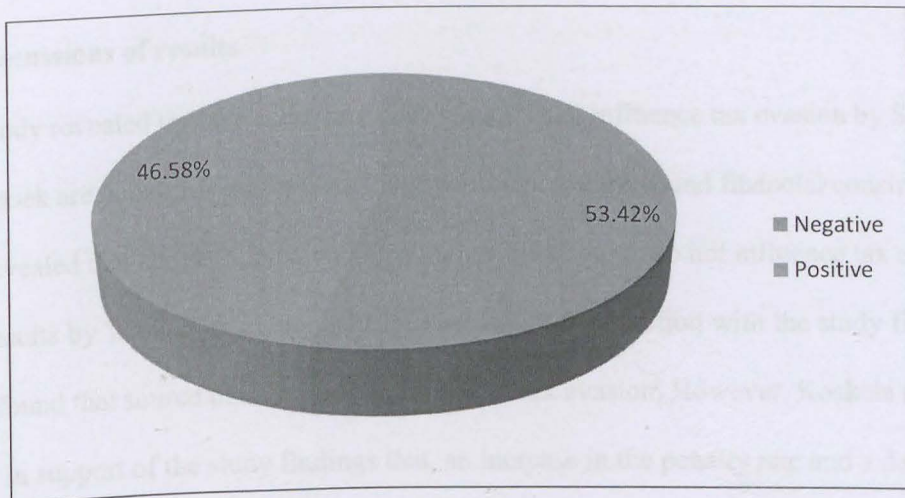
**Source: Research's findings, 2020**

Analysis from the table above shows that; age has positive effects on tax evasion. It had a strong impact where ( $t = 0.153$ ,  $p = 0.002$ ,  $\beta = 0.009$ ) as its p-value is less than 0.05. It can be explained that everyone unit increase in age would lead to 0.009 unit increase in tax evasion in Windhoek. This means that the older you get the higher the chances of evading tax. Moreover, education has a positive effect on tax evasion. T – test = 1.932,  $p = 0.000$ ,  $\beta = 0.078$ . It can be explained that, by everyone unit increase in level of qualification would lead to 0.078 unit increase in tax evasion in Windhoek. This finding

can be interpreted as indicating that those taxpayers who have high education tend to evade taxes more often than lower-educated taxpayers. This is strange as one would expect that the more educated one is, the better their understanding of the importance of tax and as such should pay their tax in time. Additionally, marital status has a positive effect on tax evasion.  $T - \text{Test} = 0.940$ ,  $p = 0.04$ ,  $\beta = 0.065$ . It can be explained that, by everyone unit increase in marital status would lead to 0.065 unit increase in tax evasion in Windhoek. This means that, as the marital status changes, the chances of evading tax also increase.

#### 4.6 Objective 4: To examine the attitudes of taxpayers towards taxation

**Figure 0.6: Attitudes of taxpayers**



*Source: Research's findings, 2020*

Objective four of the study sought to find out the attitudes of respondents (taxpayers) towards taxation. The majority (53.42%) of the respondents indicated that they have a negative attitude towards taxation while the other 46.5% indicated positive attitude on taxation. Respondents who indicated that they have a positive attitude were basing their

reasoning on the fact that, the tax fund is primarily used to raise revenue for government expenditures. Taxation is the only way that the government can raise money for use in the country's development and to build facilities in the country.

According to respondents who indicated negative attitude to taxation, they are tax illiterate, they need to understand that taxes are not just numbers and abstract principles, and they are not arbitrary. They further reasoned that tax is too high and some indicated that they are not from Namibia. More so, the respondents noted that money paid via tax is not used responsibly. Persons responsible tend to just enrich themselves and leave out the poor people that are mostly affected and are supposed to benefit from the tax funds, which they also described as corruption.

#### **4.7 Discussions of results**

The study revealed that the economic determinants that influence tax evasion by SMEs in Windhoek are penalties, perceptions on government spending and financial constraints. It was revealed that tax rates, income level, and income source do not influence tax evasion. The results by Yalama and Gumus (2013) are not in conjunction with the study findings. They found that source of income also influences tax evasion. However, Koskela (1983b) stated in support of the study findings that, an increase in the penalty rate and a decline in the probability of detection that results in a constant expected gain from a given tax evasion induces a greater loss for the taxpayer in ease of detection. Further, he demonstrates that a high penalty rate is a more effective deterrent to tax evasion than large lump-sum fines. This is because the lump-sum fine does not vary with the amount of undeclared income and thus leaves more incentive to risk-taking than the penalty rate, which varies with the declared income. Furthermore, Friedland and others (1978) in their

simulation study indicate that a high penalty rate with a low probability of detection is a more effective deterrent than a low penalty rate with a high probability of detection.

Objective 2 was to identify the non-economic determinants that influence tax evasion. Tax mentality and tax morale, perception on equity and fairness of tax system and attitudes of taxpayer are the non-economic determinants that influence tax evasion, while simplicity of taxation system does not influence tax evasion according to the study findings. A study conducted by Richardson (2006) also suggested that the role of the government has a significant impact on determining attitudes towards taxes.

Objective 3 was to determine the effect of socio-demographic factors on tax evasion. The study found that age, marital status and education has effects on tax evasion. However, no effect was found between gender and tax evasion. Eriksen and Fallan (1996) believe that the level of education received by a taxpayer is an important factor which gives him a better understanding of taxation, especially in the area of rules and regulations guiding taxation. In another study conducted in Malaysia by Kasipillai and Abdul Jabbar (2006), where academic qualification was one of the variables used, a significant positive relationship between level of education and taxpayer behaviour was also established.

Objective 4 aimed to examine the attitude of taxpayers towards taxation. The results showed that taxpayers have a negative attitude towards taxation. However, *Kirchler et al.* (2008) suggested that a taxpayer who has favourable attitude towards tax evasion is expected to be less compliant and equally a taxpayer with unfavourable attitude is likely to be more compliant. A number of researchers and scholars have suggested that the attitude of the taxpayer to risk cannot be underestimated in his/her evasion behaviour (Alm

and Torgler, 2006; Hite and McGill, 1992; Torgler, 2003). Torgler (2007) submitted that individual taxpayers' decision could be affected by their attitude towards risk.

#### 4.8 Chapter summary

This chapter consisted of data analysis and discussions. All the research objectives were assessed and met; the next chapter discussed the summary, conclusions and recommendations of the study.

## CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

This final chapter of the study concludes the entire project. The chapter is divided into three sections, namely: summary, conclusions and recommendations. Both the conclusions and recommendations are based on the findings of the study and literature review. The conclusions section summarises the findings of the study, while recommendations set a pathway for future actions to improve the situation as well as suggestions for future studies.

### 5.2 Summary of the study

This study aimed to assess the determinants of tax evasion among SMEs in Windhoek. The specific objectives of the study are:

- To identify economic determinants of tax evasion by SMEs in Windhoek
- To identify non-economic determinants of tax evasion by SMEs in Windhoek
- To identify the effects of socio-demographic factors on tax evasion
- To examine the attitudes of taxpayers towards taxation

This is a mixed methods research that was carried out in Windhoek, the capital city of Namibia. Primary data was collected from Small and Medium Enterprises (SMEs) in Windhoek with the focus of observing the determinants of tax evasion.

Data collected was analysed using SPSS software version 26. Descriptive and inferential statistics were used in order to achieve the study objectives. Regression was used to

identify the effects of socio-demographic variables (gender, age, education and marital status) on tax evasion.

Out of the 100 questionnaires distributed, 73 were returned. The study found that, the majority (33%) of the respondents were between the age of 31-35 years and the majority (52%) of the 73 respondents were male. Furthermore, most (32.9%) of the respondents had obtained matric qualifications.

Objective one of the study, was to identify economic determinants of tax evasion by SMEs in Windhoek. The findings reveal that: penalties, perception on government spending and financial constraints are the economic factors. Objective two of the study was to identify non-economic determinants of tax evasion by SMEs in Windhoek. It was found that: Tax mentality and tax morale, Perception on equity and fairness of the tax system and Attitudes of taxpayer are the non-economic determinants of tax evasion by SMEs in Windhoek.

The third objective of the study was to identify the effects of socio-demographic factors on tax evasion. Analysis from the multiple regression shows that; age has positive effects on tax evasion. This means that the older you get the higher the chances of evading tax. The results also found that gender has negative effects on tax evasion. Since the p-value of gender = 0.564 is greater than 0.05, then gender is not statistically significant. Besides, education has a positive effect on tax evasion. This finding can be interpreted as indicating that those taxpayers who have high education tend to evade taxes more often than lower-educated taxpayers. Additionally, marital status has a positive effect on tax evasion. This means that, as the marital status changes, the chances of evading tax also increase. The last objective was to examine the attitudes of taxpayers towards taxation. It was found that the majority of the taxpayers have negative attitudes towards paying tax. Reasoning that

they are tax illiterate, they need to understand that taxes are not just numbers and abstract principles, and they are not arbitrary. They further reasoned that tax is too high and some indicated that they are not from Namibia.

### 5.3 Conclusions

**Objective one of the study was to identify economic determinants of tax evasion by SMEs in Windhoek.** The findings reveal that: penalties, perception on government spending and financial constraints are the economic factors. **Objective two of the study was to identify non-economic determinants of tax evasion by SMEs in Windhoek.** It was found that: Tax mentality and tax morale, Perception on equity and fairness of the tax system and Attitudes of taxpayer are the non-economic determinants of tax evasion by SMEs in Windhoek. **The third objective of the study was to identify the effects of socio-demographic factors on tax evasion.** Analysis from the multiple regression shows that; age has positive effects on tax evasion. This means that the older you get the higher the chances of evading tax. The results also found that gender has negative effects on tax evasion. Since the p-value of gender = 0.564 is greater than 0.05, then gender is not statistically significant. Besides, education has a positive effect on tax evasion. This finding can be interpreted as indicating that those taxpayers who have high education tend to evade taxes more often than lower-educated taxpayers. Additionally, marital status has a positive effect on tax evasion. This means that, as the marital status changes, the chances of evading tax also increase. **The last objective was to examine the attitudes of taxpayers towards taxation.** It was found that the majority of the taxpayers have negative attitudes towards paying tax. Reasoning that they are tax illiterate, they need to understand

that taxes are not just numbers and abstract principles, and they are not arbitrary. They further reasoned that tax is too high and some indicated that they are not from Namibia.

In conclusion, the study revealed that the economic determinants that influence tax evasion by SMEs in Windhoek are penalties, perception on government spending and financial constraints. Tax mentality and tax morale, perception on equity and fairness of tax system and attitudes of the taxpayer are the non-economic determinants that influence tax evasion. The study found that age, marital status and education have effects on tax evasion. The study found that taxpayers have a negative attitude towards taxation.

#### **5.4 Recommendations**

Tax plays an important role in the economic growth of any country. Given that SMEs are crucial for economic development, it is critically important that incentives are put in place to help SMEs have some basic understanding of their role in the economic development of the country and the entire world. According to the results of the study, the following improvements are recommended for SMEs and the tax system in Namibia:

- ❖ In order to reduce tax evasion in Namibia, the government should give cashback for consumers as incentives to declare Tax,
- ❖ The government must give the consumer a proper subsidy under a competitive firm's market, the consumer will voluntarily and fully declare unit tax so that the firm cannot cheat, and that the cheating and auditing costs can be saved, thus Pareto improving and efficient taxation without evasion becomes practicable.

- ❖ Given the fact that it remains imperative that government continues to commit to tax incentives that benefit this small business sector, it is crucial that the government creates incentives to assist SMEs understand their role in economic development through not only employment creation and poverty reduction but also taxation. The government is therefore encouraged to implement training programmes that will equip SMEs with relevant knowledge on taxation.
- ❖ SMEs should be levied a lower percentage of taxes to allow enough funds for business development and better chances of survival in a competitive market (Atawodi & Ojeka, 2012). Most SMEs opt for tax evasion because the rates are too high for them. Therefore, the Ministry of Inland Revenue should look into this aspect to encourage start up SMEs to pay tax.
- ❖ Tax regulations governing SMEs should be simplified in order to make compliance easier for them. This includes clear and simple tax regulations, and an undemanding tax filing process. The use of information technology should be encouraged.
- ❖ Tax administrators should improve their support services towards SMEs, for example, small business owners should be educated on issues such as taxes they are expected to pay and exemptions, they are eligible for.
- ❖ The Government should consider the characteristics of non-compliant taxpayers, review the current regulations and possibly as a result, increase audit rates and penalty rates (enforcement) as well as attempt to build good relationships with the taxpayers in seeking to improve the general tax compliance levels.

## 5.5 Areas for further studies

- A study on a nation's behaviour towards taxes needs to be conducted in Namibia for the government to understand the behaviour.

## REFERENCES

- Abbasi, E., & Haidaryemady, H. (2012). (2012). Investigating Causes of Tax Evasion among Employees and Legal Persons. *Journal of Basic and Applied Scientific Research*, 7.
- Abdul-Razak, A., & Adafula, C. J. (2013). Evaluating taxpayer's attitude and its influence on tax compliance decisions in Tamale, Ghana. *Journal of Accounting and Taxation*, 5(3), 48-57.
- Akinyomi, O. J., & Okpala, K. (2013). Appraisal of factors influencing tax avoidance and evasion in Nigeria. *International Journal of Research in Commerce and Management.*, 14.
- Ameyaw, B., & Dzaka, D. (2016). Determinants of Tax Evasion. *Empirical Evidence from Ghana*, 7, 1653-1664. Retrieved from <http://dx.doi.org/10.4236/me.2016.714145>.
- Alm, J. (2013) Designing Responsible Regulatory Policies to Encourage Tax Compliance. [http://murphy.tulane.edu/files/events/Alm-DesigningResponsibleRegulatoryPolicies-Murphy Institute-021113.pdf](http://murphy.tulane.edu/files/events/Alm-DesigningResponsibleRegulatoryPolicies-Murphy%20Institute-021113.pdf)
- Atawodi, O.W., and Ojeka, S.A. (2012). Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria, *International Journal of Business and Management*, 7(12): pp.87-96, doi:10.5539/ijbm.v7n12p87.
- Adams, D. (2013) Florida Hit by "Tsunami" of Tax Identity Fraud. <http://www.reuters.com/article/2013/02/17/us-usa-tax>

- fraudidUSBRE91G05M20130217?irp c=932 Baldry, J.C. (2011). Income tax enforcement. *Asia Pacific Tax Bulletin*.
- Charmaine, N. (2018). NAMIBIA's tax loss was estimated at 12,9% as a result of profit shifting by multinationals operating in the country. *The Namibian*, 9.
- Creswell, J.W. 2012. *Educational Research Planning, Implementing and Monitoring of Qualitative Research. 10th edition*. New Jersey: Pearson Education.
- Cobham, A. (2005) Tax Evasion, Tax Avoidance and Development Finance. Queen Elisabeth House Working Paper No . 129.
- Daley, S. (2010) Greek Wealth Is Everywhere but Tax Forms. New York Times .  
[http://www.nytimes.com/2010/05/02/world/europe/02evasion.html?\\_r=0](http://www.nytimes.com/2010/05/02/world/europe/02evasion.html?_r=0)
- Devos, K. N. (2006). The attitudes of Australian and New Zealand tertiary students towards tax evasion - A comparative study and demographic analysis. *New Zealand Journal of Taxation Law and Policy*, 11.
- Eragbhe, E. and Modugu, K.P. (2014). Tax Compliance Costs of Small and Medium Scale Enterprises in Nigeria, *International Journal of Accounting and Taxation*, 2(1): pp. 63-87.
- Folayan, O. D., & Adeniyi, G. (2018, January). Effects Of Tax Evasion On Government Revenue Generation In Oyo State, Nigeria. *European Journal of Accounting, Auditing and Finance Research*, 6(1), 10.

- French, C. (2014). Community Planning New Hampshire. *Information Brief*, (1). Retrieved from: [https://extension.unh.edu/resources/files/Resource004765\\_Rep6784.pdf](https://extension.unh.edu/resources/files/Resource004765_Rep6784.pdf).
- Hite, A., & Roberts, M.L. (1992). An analysis of tax reform based on taxpayers' perceptions of fairness and self-interest. *Advances in Taxation*, 4, 115–137.
- Internal Revenues Services (IRS). 2009. *Update on Reducing the Federal Tax Gap and Improving Voluntary Compliance*. Retrieved 29th of August 2020, from [http://www.irs.gov/pub/newsroom/tax\\_gap\\_report\\_-final\\_version.pdf](http://www.irs.gov/pub/newsroom/tax_gap_report_-final_version.pdf)
- James, S. and Alley, C. (2014). Tax compliance, self-assessment and tax administration. *Journal of Financial and Management in Public Services*, 2, 27-42.
- James, S., and Nobes, C. (2008). *The Economics of Taxation* (8th ed.). Birmingham: Fiscal Publications.
- James, K (2019) Retrieved from <https://www.aljazeera.com/news/2019/12/exclusive-corruption-namibia-fishing-industry-unveiled-191201073838635.html>
- Jayeola, O. (2010). An assessment of tax evasion and tax avoidance in Lagos State. *Journal of Research in National Development*, 25-32.
- Johns, A., and Slemrod, J. (2010). *The Distribution of Income Tax Noncompliance*. Michigan: National Tax Journal.

- Johnson, S., Kaufmann, D., McMillan, J., Woodruff, C. (2000). "Why Do Firms Hide? Bribes and Unofficial Activity after Communism." *Journal of Public Economics*, Vol. 76, No. 3, pp. 495-520
- Julia, K. (2020, January 22). *investopedia*. Retrieved from investopedia.com: [www.investopedia.com/terms/i/income.asp](http://www.investopedia.com/terms/i/income.asp)
- Kabel, B., and Nwokah, G. (2009). . (2009), Curbing tax evasion and avoidance in personal income tax administration: A study of south-south states of Nigeria, *European Journal of Economic. . Finance and Administrative Sciences*, 15.
- Khaled, S. Y., Nor Aziah, A. M., & S, S. K. (2011). Tax Evasion as a Crime: A Survey of Perception in Yemen . *International Journal of Business and Management*, 20.
- Lazutina, I. (2016, June 23). THE DETERMINANTS OF TAX EVASION AMONG UKRAINIAN HOUSEHOLDS. *Economic analysis*, 8. Retrieved from The Determinants of Tax Evasion among Ukrainian Households. Retrieved from [https://kse.ua/wp-content/uploads/2019/03/thesis\\_Lazutina.pdf](https://kse.ua/wp-content/uploads/2019/03/thesis_Lazutina.pdf)
- Lai, M. L., & Yap, B. W. (2011). Tax noncompliance among small and medium-enterprises in Malaysia: *Tax audit evidence*. Faculty of Computer and Mathematical Sciences, Universiti Teknologi MARA, Shah Alam, Selangor, Malaysia
- Leadership. (2013), The Leadership, The Evil of Tax Evasion and Tax Havens, June 23
- Luttmer, E. F., & Singhal, M. (2014). Tax Morale. *Journal of Economic Perspectives*, 28 (4):149-68.

- Mansor, M., & Gurama, Z. U. (2016). The determinants of tax evasion in Gombe state Nigeria. *International Journal of Economics and Financial Issues*, 6(S7), 165-170
- Mahmoud, M. A. (2010). Tax reform and its effect on tax audits: *The example of Egypt. Bulletin for International Taxation*(February 2010), 120-130.
- Mbaknol. (2019, May 9). Retrieved from mbaknol.com: [www.mbaknol.com/business-taxation/theories-of-taxation/](http://www.mbaknol.com/business-taxation/theories-of-taxation/)
- Mughal, M. M., & Akram, M. (2012). Reasons of tax avoidance and tax evasion: Reflections from Pakistan. *Journal of Economics and behaviour studies*, 4(4), 6.
- Palil, M. R. & Mustapha, A. F. (2011) Tax audit and tax compliance in Asia: A case study of Malaysia. *European Journal of Social Sciences* – Volume 24, Number 1, 7-32
- Pissarides, Christopher A., and Guglielmo Weber. 1989. "An Expenditure-Based Estimate of Britain's Black Economy." *Journal of Public Economics*, June, 39(1): 17–32.
- OECD. (2010). Forum on tax administration: Small/Medium Enterprise (SME) compliance group- Understanding and influencing taxpayers' compliance variable.
- O'Hare, B. A. M. (2019). International corporate tax avoidance and domestic government health expenditure. *Bulletin of the World Health Organisation*, 97(11), 746.
- Orkaido Deyganto, K. (2018). Factors Influencing Taxpayers' Voluntary Compliance Attitude with Tax System: Evidence from Gedeo Zone of Southern Ethiopia. *Universal Journal of Accounting and Finance*, 6, 92-107. doi:10.13189/ujaf.2018.060302

- Ogbokor, C. A., & Ngeendepi, E. J. (2012). Investigating the challenges faced by SMEs in Namibia.
- Peter, O. I., & Ofiafoh, E. (2013). Tax Evasion and Avoidance Behaviour of the Self-Employed Nigerians. *European Journal of business management*, 5(6), 12.
- Peter, O., & Ofiafoh, E. (2013). Tax Evasion and Avoidance Behaviour of the Self-Employed Nigeria. *European Journal of Business and Management*, 5.
- Ranjana, G. R. (2019). An empirical study of demographics of perception of tax evasion in New Zealand. *New Zealand Journal of Taxation Law and Policy*, 7.
- Ritsatos, T. 2014. Tax evasion and compliance; from the neo classical paradigm to behavioural economics, a review. *Journal of Accounting and Organisational Change* 10 (2): 244 – 262
- Saul, M. (2019, 7 19). *simplypsychology*. Retrieved from simplypsychology.org: [www.simplypsychology.org/qualitative-quantitative.html](http://www.simplypsychology.org/qualitative-quantitative.html)
- Sawyer, A. J. (2017). A taxonomy of the tax compliance literature: Further findings, problems and prospects. *Busines Journal*, 137–320.
- Simon, J. R., & Nobes, K. (2018). *The economics of taxation: Principles, policy, and practice*. UK: Fiscal publication.
- Surbihi, S. (2018, November 19). *keydifferences*. Retrieved from keydifferences.com: [keydifferences.com/difference-between-qualitative-and-quantitative-research.html](http://keydifferences.com/difference-between-qualitative-and-quantitative-research.html)

- Susan, D. (2011, September 16). *snapsurveys*. Retrieved from snapsurveys.com: [www.snapsurveys.com/blog/qualitative-vs-quantitative-research/](http://www.snapsurveys.com/blog/qualitative-vs-quantitative-research/).
- Sherry, X.L. (2010) Social Identities, Ethnic Diversity and Tax Morale. <http://www.utdallas.edu/~xxl068000/TaxMorale.pdf>
- Thanneermalai, S., & Farah, R. (2010). Who wins in a tax audit? *Accountants Today* (September 2010), 18-22.
- Thure, N. T. (2013). A Review of Factors Impacting Tax Compliance. . *Australian Journal of Basic and Applied Sciences*, 16.
- Thorndike JJ (2009). The Unfair Advantage of the Few: The New Deal Origins of "Soak the Rich" Taxation. *The New Fiscal Sociology: Taxation in Comparative and Historical Perspectives*, pp. 26 - 28.
- Torgler, B., Demir, I. C., Macintyre, A., & Schaffner, M. (2008). Causes and consequences of tax morale: *An empirical investigation. Economic Analysis and Policy*, 38(2), 313-339.
- United Nation (UN). (2007), Follow Up and Implementation of the Outcome of the International Conference on Financing for Development A/62/217, 10/8/2007, No 125. p30.
- United Nation (UN). (2015), Combating Tax Evasion Especially Critical for Developing States, Second Committee, Economic and Social Council Hear at Meeting on Domestic Resource Mobilization.

- Virmani, A. (1989). "Indirect Tax Evasion and Production Efficiency." *Journal of Public Economics*, Vol. 39, pp. 223-237.
- Wadesango, N., Mutema, A., Mhaka, C., and Wadesango, V. (2018). Tax compliance of small and medium enterprises through the self-assessment system: issues and challenges, *Academy of Accounting and Financial Studies Journal*, 22(3): pp.1-15.
- Worlu, C. N., & Emeka, N. (2012, November). Tax revenue and economic development in Nigeria: A macro econometric approach. *Academic Journal of Inter Disciplinary Studies. Academic Journal of Interdisciplinary Studies*, 1(2), 21.
- Young A, Danny C, Daniel H (2013). A Study of the Impact of Culture on Tax Compliance in China. *International Tax Journal*; CCH Incorporated.
- Zainal Abidin, M. Y., Hasseldine, J., & Paton, D. (2010). An analysis of tax non-compliance behaviour of small and medium-sized corporations in Malaysia In K. Datt, Tran-Nam, B., and Bain, K (Ed.), *International Tax Administration: Building Bridges* (pp. 9-24). Sydney: CCH Australia Limited

## ANNEXURE A: QUESTIONNAIRE

Dear respondent,

This survey is designed to collect the data regarding the determinants of tax evasion among SMEs in Windhoek.

My name is Landuleni Shihwandu, a post-graduate student at the University of Namibia pursuing a Master's Degree in Business Administration Finance. The purpose of this research is to evaluate the determinants of tax evasion among SMEs in Windhoek. The Thesis is in partial fulfilment of the requirements for the attainment of the Master of Business Administration Finance degree.

Through your participation, the study will be able to make possible recommendations that will highlight the determining factors of tax evasion amongst SMEs in Windhoek and the guidelines for possible solutions to the problem. The following questions pertain to your perception on the factors of tax evasion.

I therefore kindly request you to assist me in providing your views in this regard, as your opinions will be of great importance. Please note that this is for academic purposes and that all your information would be treated with confidentiality.

Thank you for your time and cooperation.

Kind regards,

Landuleni Shihwandu

## INSTRUCTIONS

1. Complete all the questions with honesty.
  2. Please do not put your name on this questionnaire.
  3. Complete both part A, B and C of the questionnaire and be assured that your information is confidential and anonymous.
  4. All answers will be treated with strict of confidentiality and your contribution to the survey is highly valued.
- 

## PART A: DEMOGRAPHIC INFORMATION

This part includes statements concerning general information about the participant. Please indicate with an 'X' the category that best describes your situation.

### 1. What is your Age group?

20-25

26-30

31-35

36+

### 2. Gender?

Male

Female

### 3. Marital Status?

Married

Single

Divorced

Widowed

**4. Level of Education?**

None

Matric

National Diploma

Bachelor degree:

Master Degree

Doctorate Degree

**5. In which year was, your company established?**

\_\_\_\_\_

**6. How many years has your business been in operation?**

\_\_\_\_\_

**7. What is your business' estimated annual income or revenue (Please tick the correct answer)?**

a)	N\$ 5 000 – N\$ 59 000	<input type="checkbox"/>
b)	N\$ 60 000 – N\$ 149 000	<input type="checkbox"/>
c)	N\$ 150 000 – N\$ 200 000	<input type="checkbox"/>
d)	Over N\$ 200 000	<input type="checkbox"/>

**8. Is your business registered with the following....? Please cross the correct box**

Entities	Yes	No	I don't know
Business and Intellectual Property Authority of Namibia (BIPA)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ministry of Finance, Department of Inland Revenue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. In which sector(s) does your business operate in? (Please cross the appropriate answer)

a)	Manufacturing/Processing		k)	Street vendor/Hawker	
b)	Construction and Renovations		l)	Restaurant/Food and Beverages	
c)	Accountant/Bookkeeping		m)	Import and Export Trade	
d)	Marketing and Advertising		n)	Shebeens	
e)	Logistics/Transportation		o)	Manufacturing	
f)	Farming/Tourism		p)	Cell phone Repairs	
g)	Event Management		q)	Business Consultants	
h)	Educational Institution		r)	Catering Services	
i)	Cleaning Services		s)	Other-Specify in the line below.	
j)	Hair salon/Barbershop			_____	

10. What is your legal capacity to the above-mentioned business sector/Occupational level? (Please tick the appropriate answer)

A	Founder/Owner	
B	Member	
C	Director	
D	Shareholder	

**SECTION B: ECONOMIC AND NON-ECONOMIC FACTORS THAT DETERMINES TAX EVASION**

11. Does your company pay all the tax required?

- a) Yes
- b) No

12. If not, does your company pay tax at all.

a) Yes

b) No

13. The following economic factors influence your tax payment behaviour:

Economic Factors	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
Penalties					
Tax Rates					
Income level					
Income Source					
Perception on government spending					
Financial constraints					

c) The following non-economic factors influence your tax payment behaviour.

Non-Economic Factors	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
Tax mentality and tax morale					
Perception on equity and fairness of tax system					
Simplicity of taxation system					
Attitudes of taxpayer					

d) How would you describe your attitude towards taxation?

Attitude	Indicate where appropriate
Positive	
Negative	

e) In your opinion, what are the main factors affecting the willingness of Namibian citizens in Windhoek to pay taxes?

---

---

---

f) The government is providing needed services to the public with the tax collected.

Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)

g) In your opinion, what are the advantages and disadvantages of paying taxes, if there are any?

Advantages:

---

---

---

Disadvantages:

---

---

---

THANK YOU 😊

## REFERENCES

- Abbasi, E., & Haidaryemady, H. (2012). (2012). Investigating Causes of Tax Evasion among Employees and Legal Persons. *Journal of Basic and Applied Scientific Research*, 7.
- Abdul-Razak, A., & Adafula, C. J. (2013). Evaluating taxpayer's attitude and its influence on tax compliance decisions in Tamale, Ghana. *Journal of Accounting and Taxation*, 5(3), 48-57.
- Akinyomi, O. J., & Okpala, K. (2013). Appraisal of factors influencing tax avoidance and evasion in Nigeria. *International Journal of Research in Commerce and Management.*, 14.
- Ameyaw, B., & Dzaka, D. (2016). Determinants of Tax Evasion. *Empirical Evidence from Ghana*, 7, 1653-1664. Retrieved from <http://dx.doi.org/10.4236/me.2016.714145>.
- Alm, J. (2013) Designing Responsible Regulatory Policies to Encourage Tax Compliance. <http://murphy.tulane.edu/files/events/Alm-DesigningResponsibleRegulatoryPolicies-MurphyInstitute-021113.pdf>
- Atawodi, O.W., and Ojeka, S.A. (2012). Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria, *International Journal of Business and Management*, 7(12): pp.87-96, doi:10.5539/ijbm.v7n12p87.
- Adams, D. (2013) Florida Hit by "Tsunami" of Tax Identity Fraud. <http://www.reuters.com/article/2013/02/17/us-usa-tax>